

**NEW ISSUE—  
BOOK ENTRY ONLY**

Ratings:  
Moody's: Aa3  
Fitch: AA

*In the opinion of Baker & Daniels, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2000 Bonds, as defined herein, is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes. Such exclusion is conditioned upon continuing compliance by the Indiana Authority, the Illinois Authority and the Corporation, as defined herein, with the Tax Covenants, as defined herein. In the opinion of Bond Counsel, under existing law, interest on the Indiana Bonds (defined herein) is exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax. In the opinion of Bond Counsel, under existing law, interest on the Illinois Bonds (defined herein) is not exempt from present State of Illinois income taxes. See "Tax Matters" herein.*



**\$105,000,000**  
**INDIANA HEALTH FACILITY  
FINANCING AUTHORITY**  
**HEALTH SYSTEM REVENUE BONDS,  
SERIES 2000 A (SISTERS OF ST. FRANCIS HEALTH  
SERVICES, INC. OBLIGATED GROUP) (FLOATS<sup>SM</sup>)**

**\$40,000,000**  
**ILLINOIS DEVELOPMENT  
FINANCE AUTHORITY**  
**HEALTH SYSTEM REVENUE BONDS,  
SERIES 2000 B (SISTERS OF ST. FRANCIS HEALTH  
SERVICES, INC. OBLIGATED GROUP) (FLOATS<sup>SM</sup>)**

Dated: Date of Delivery

Due: November 1, 2030

The Indiana Bonds will be issued under and be secured by the provisions of the Indiana Indenture described herein. The Illinois Bonds will be issued under and be secured by the provisions of the Illinois Indenture described herein. The Series 2000 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as Securities Depository (as defined herein) for the Series 2000 Bonds and individual purchases of the Series 2000 Bonds will be made in book entry form only, all as described herein. Principal of and interest on the Series 2000 Bonds will be payable by Bank One Trust Company, N.A., as trustee, to the registered owners of the Series 2000 Bonds (as long as the book-entry system is in effect, Cede & Co.). Subsequent disbursements of such principal and interest will be made to the individual purchasers of beneficial interests in the Series 2000 Bonds as described herein.

The Series 2000 Bonds will bear interest from their date of original issuance at an Auction Rate as Floating Auction Tax-Exempts for a seven-day Auction Rate Period, unless and until all or any portion is converted to a different Auction Rate Period or different rate period as described herein. The Auction Rate will be determined pursuant to the procedures set forth herein. Interest on the Series 2000 Bonds, while bearing interest at an Auction Rate for a seven-day Auction Rate Period, will be payable weekly on Wednesday of each week, commencing May 17, 2000.

The Series 2000 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. The Series 2000 Bonds are subject to mandatory tender for purchase as described herein.

The Indiana Bonds are limited obligations of the Indiana Health Facility Financing Authority (the "Indiana Authority"), a public body politic and corporate under the laws of the State of Indiana, secured under the provisions of the Indiana Indenture and the Indiana Loan Agreement described herein, and will be payable from loan repayments made by Sisters of St. Francis Health Services, Inc. (the "Corporation"), an Indiana nonprofit corporation, under the Indiana Loan Agreement, and from certain funds held under the Indiana Indenture. The Illinois Bonds are limited obligations of the Illinois Development Finance Authority (the "Illinois Authority"), a body politic and corporate under the laws of the State of Illinois, secured under the provisions of the Illinois Indenture and the Illinois Loan Agreement described herein, and will be payable from loan repayments made by the Corporation under the Illinois Loan Agreement and from certain funds held under the Illinois Indenture. The obligation of the Corporation to make such payments is evidenced and secured by the issuance of Obligations (as defined herein) under and pursuant to the terms of the Master Indenture described herein, whereunder the Corporation is obligated to make payments on such Obligations according to the terms thereof. Payments on such Obligations are required to be in an amount sufficient to pay principal of and premium, if any, and interest on the Series 2000 Bonds when due. The Series 2000 Bonds are secured solely by the Indiana Indenture and the Illinois Indenture and are payable solely from payments under the Indiana Loan Agreement and the Illinois Loan Agreement and such Obligations.

THE INDIANA BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE INDIANA AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE INDIANA INDENTURE. THE INDIANA BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OF INDIANA OR A PLEDGE OF THE FAITH AND CREDIT OF THE INDIANA AUTHORITY OR THE STATE OF INDIANA, OR ANY POLITICAL SUBDIVISION THEREOF AND THE INDIANA BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR INTEREST THEREON. THE INDIANA AUTHORITY HAS NO TAXING POWER.

THE ILLINOIS BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE ILLINOIS AUTHORITY. THE ILLINOIS BONDS AND THE INTEREST THEREON WILL NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION, GENERAL OR MORAL, OR A PLEDGE OF THE FAITH AND CREDIT OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE PURVIEW OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR PROVISION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER, IF ANY, OF ANY OF THEM. NO OWNER OF THE ILLINOIS BONDS WILL HAVE ANY RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER, IF ANY, OF ANY OF THEM. NO OWNER OF THE ILLINOIS BONDS WILL HAVE ANY RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER, IF ANY, OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS, OR ANY POLITICAL SUBDIVISION OF THE STATE TO PAY THE PRINCIPAL OF THE ILLINOIS BONDS, OR THE INTEREST OR PREMIUM, IF ANY, THEREON. PAYMENT OF THE ILLINOIS BONDS, INCLUDING THE PRINCIPAL THEREOF, REDEMPTION PREMIUM, IF ANY, AND THE INTEREST THEREON, WILL BE MADE SOLELY FROM THE FUNDS AND OBLIGATIONS DULY PLEDGED THEREFOR AS DESCRIBED IN THIS OFFICIAL STATEMENT. THERE WILL BE NO PLEDGE OF ANY OF THE CREDIT OR THE TAXING POWER, IF ANY, OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS, OR ANY POLITICAL SUBDIVISION OF THE STATE OF ILLINOIS, TO THE OBLIGATIONS OF THE ILLINOIS BONDS AND NO OWNER OF ANY OF THE ILLINOIS BONDS CAN EVER SUBMIT A CLAIM AGAINST ANY SUCH CREDIT OR TAXING POWER. THE ILLINOIS AUTHORITY HAS NO TAXING POWER.

This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

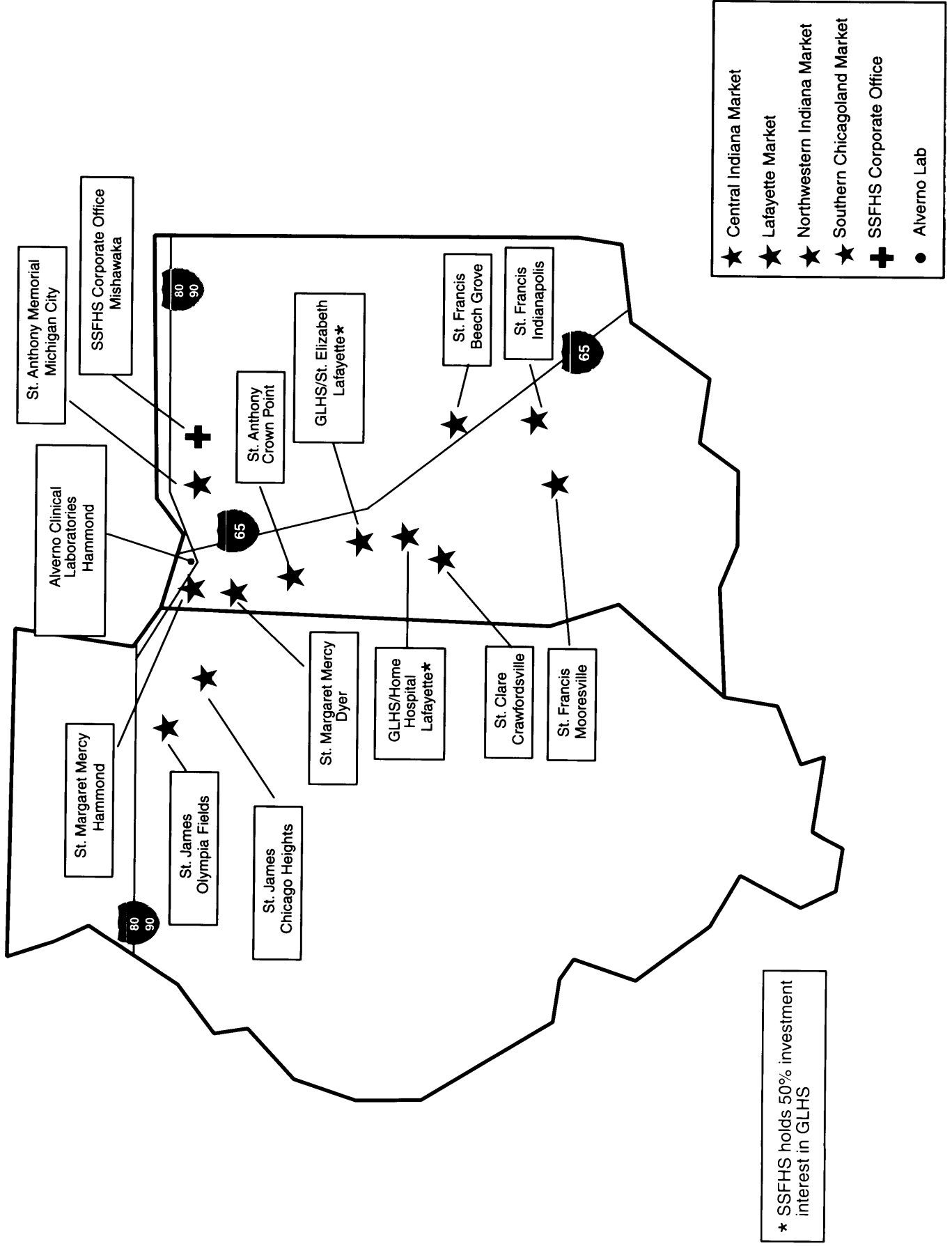
*The Series 2000 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale and to the approval of legality by Baker & Daniels, Indianapolis, Indiana, Bond Counsel, the approval of certain matters for the Corporation by its counsel, Buchanan Ingersoll Professional Corporation, Pittsburgh, Pennsylvania, for the Indiana Authority by its counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana, for the Illinois Authority by its counsel, Burke Burns & Pinelli, Ltd., Chicago, Illinois, and for the Underwriter by its counsel, Ice Miller Donadio & Ryan, Indianapolis, Indiana.*

*It is expected that the Series 2000 Bonds in definitive form will be available for delivery to The Depository Trust Company in New York, New York, on or about May 5, 2000.*

**Merrill Lynch & Co.**

May 2, 2000

# SSFHS Markets



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This Official Statement does not constitute an offer to sell the Series 2000 Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Series 2000 Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Series 2000 Bonds and, if given or made, such information or representation must not be relied upon.

The information set forth herein under the caption "THE ISSUERS" has been furnished by the Indiana Health Facility Financing Authority and the Illinois Development Finance Authority. The Indiana Authority has no obligations with respect to the Illinois Bonds and the Illinois Authority has no obligations with respect to the Indiana Bonds. All other information set forth herein has been obtained from the Corporation, and other sources that are believed to be reliable, but the adequacy, accuracy or completeness of such information is not guaranteed by the Indiana Authority, the Illinois Authority or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the Indiana Authority, the Illinois Authority, The Depository Trust Company or the Corporation since the date hereof.

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2000 BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2000 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

THE SERIES 2000 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE AND THE MASTER INDENTURE HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2000 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH SERIES 2000 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NONE OF THESE STATES NOR ANY OF THEIR AGENCIES HAS PASSED UPON THE MERITS OF THE SERIES 2000 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.



## OFFICIAL STATEMENT

**\$105,000,000**

**Indiana Health Facility Financing Authority  
Health System Revenue Bonds, Series 2000 A  
(Sisters of St. Francis Health Services, Inc.  
Obligated Group) (FLOATS<sup>SM</sup>)**

**\$40,000,000**

**Illinois Development Finance Authority  
Health System Revenue Bonds, Series 2000 B  
(Sisters of St. Francis Health Services, Inc.  
Obligated Group) (FLOATS<sup>SM</sup>)**

## INTRODUCTION

### General

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is provided to furnish information with respect to the sale and delivery of \$105,000,000 aggregate principal amount of Indiana Health Facility Financing Authority Health System Revenue Bonds, Series 2000 A (Sisters of St. Francis Health Services, Inc. Obligated Group) (FLOATS<sup>SM</sup>) (the "Indiana Bonds") issued by the Indiana Health Facility Financing Authority (the "Indiana Authority") and \$40,000,000 of Illinois Development Finance Authority Health System Revenue Bonds, Series 2000 B (Sisters of St. Francis Health Services, Inc. Obligated Group) (FLOATS<sup>SM</sup>) (the "Illinois Bonds") and collectively with the Indiana Bonds, the "Series 2000 Bonds" issued by the Illinois Development Finance Authority (the "Illinois Authority"). The Indiana Authority and the Illinois Authority will be referred to herein at times collectively as the "Authority;" provided however, the Indiana Authority has no obligations with respect to the Illinois Bonds and the Illinois Authority has no obligations with respect to the Indiana Bonds.

### Purpose

Sisters of St. Francis Health Services, Inc. (the "Corporation"), is an Indiana nonprofit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The proceeds of the Indiana Bonds will be used together with other funds of the Corporation to (i) refinance the Indiana Authority's Hospital Revenue Notes, Series 1999 and Series 1999B (Sisters of St. Francis Health Services, Inc. Project) dated September 29, 1999 and December 16, 1999, respectively, in the amount of \$66,900,000 and \$20,000,000, respectively; (ii) finance the acquisition, construction and equipping of certain additions and improvements to the facilities operated by the Corporation and its Designated Group Affiliates (as hereinafter defined) in Indiana, and (iii) pay certain costs of issuance of the Indiana Bonds. See "PLAN OF FINANCE" herein.

The proceeds of the Illinois Bonds will be used together with other funds of the Corporation to (i) refinance the Illinois Authority's Hospital Revenue Notes, Series 1999C (Sisters of St. Francis Health Services, Inc. Project) dated December 16, 1999 in the amount of \$31,000,000; (ii) finance the acquisition, construction and equipping of certain additions and improvements to the facilities operated by the Corporation and its Designated Group Affiliates (as hereinafter defined) in Illinois, and (iii) pay certain costs of issuance of the Illinois Bonds. See "PLAN OF FINANCE" herein.

### The Indenture and Loan Agreement

The Indiana Bonds will be issued pursuant to an Indenture of Trust and Pledge, dated as of May 1, 2000 (the "Indiana Indenture"), between the Indiana Authority and Bank One Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Indiana Bonds will be loaned to the Corporation pursuant to a Loan Agreement, dated as of May 1, 2000 (the "Indiana Loan Agreement"), between the Indiana Authority and the Corporation. The Illinois Bonds will be issued pursuant to an Indenture of Trust and Pledge dated as of May 1, 2000 (the "Illinois Indenture," and collectively with the Indiana Indenture, the "Indenture") between the Illinois Authority and the Trustee. The proceeds of the Illinois Bonds will be loaned to the Corporation pursuant to a Loan Agreement dated as of May 1, 2000 (the "Illinois Loan Agreement" and collectively with the Indiana Loan Agreement, the "Loan Agreement") between the Illinois Authority and the Corporation.

All capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings as in the Indenture or the Master Indenture (as defined below), as applicable. See "DEFINITIONS OF CERTAIN TERMS" in Appendix D hereof.

### **The Indiana Authority**

The Indiana Authority was created in 1983 pursuant to the provisions of Indiana Code 5-1-16 (the "Indiana Act") and is organized and existing under and by virtue of the Indiana Act as a public body politic and corporate, not an agency of the State of Indiana, but an independent public instrumentality exercising essential public functions. Under the Indiana Act, the Indiana Authority is authorized to make loans to participating providers (as defined in the Indiana Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Indiana Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of "health facility property" (as defined in the Indiana Act). The Indiana Authority has no taxing power.

**THE INDIANA BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE INDIANA AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE INDIANA INDENTURE. THE INDIANA BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OF INDIANA OR A PLEDGE OF THE FAITH AND CREDIT OF THE INDIANA AUTHORITY OR THE STATE OF INDIANA, OR ANY POLITICAL SUBDIVISION THEREOF AND THE INDIANA BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR INTEREST THEREON. THE INDIANA AUTHORITY HAS NO TAXING POWER.**

### **The Illinois Authority**

The Illinois Authority is a political subdivision, body politic and corporate, duly organized and existing under the laws of the State of Illinois, and is authorized to issue the Illinois Bonds pursuant to its powers under the provisions of the Illinois Development Finance Authority Act, 20 ILCS 3505/1 et seq., as amended (the "Illinois Act"), in accordance with the Bond Resolution adopted by the Illinois Authority on April 20, 2000 (the "Illinois Resolution"). The Illinois Authority has no taxing power.

**THE ILLINOIS BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE ILLINOIS AUTHORITY. THE ILLINOIS BONDS AND THE INTEREST THEREON WILL NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION, GENERAL OR MORAL, OR A PLEDGE OF THE FAITH AND CREDIT OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE PURVIEW OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR PROVISION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER, IF ANY, OF ANY OF THEM. NO OWNER OF THE ILLINOIS BONDS WILL HAVE ANY RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER, IF ANY, OF ANY OF THEM. NO OWNER OF THE ILLINOIS BONDS WILL HAVE ANY RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER, IF ANY, OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS, OR ANY POLITICAL SUBDIVISION OF THE STATE TO PAY THE PRINCIPAL OF THE ILLINOIS BONDS, OR THE INTEREST OR PREMIUM, IF ANY, THEREON. PAYMENT OF THE ILLINOIS BONDS, INCLUDING THE PRINCIPAL THEREOF, REDEMPTION PREMIUM, IF ANY, AND THE INTEREST THEREON, WILL BE MADE SOLELY FROM THE FUNDS AND OBLIGATIONS DULY PLEDGED THEREFOR AS DESCRIBED IN THIS OFFICIAL STATEMENT. THERE WILL BE NO PLEDGE OF ANY OF THE CREDIT OR THE TAXING POWER, IF ANY, OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS, OR ANY POLITICAL SUBDIVISION OF THE STATE OF ILLINOIS, TO THE OBLIGATIONS OF THE ILLINOIS BONDS AND NO OWNER OF ANY OF THE ILLINOIS BONDS CAN EVER SUBMIT A CLAIM AGAINST ANY SUCH CREDIT OR TAXING POWER. THE ILLINOIS AUTHORITY HAS NO TAXING POWER.**

### **The Corporation and the Designated Group Affiliates**

On the date of issuance of the Series 2000 Bonds (the "Issue Date"), the Corporation will be the only member of the Obligated Group. As of the Issue Date, the Corporation expects to directly own eight healthcare center campuses. Two additional healthcare center campuses are owned by St. Margaret Mercy (the facilities owned by the Corporation

and those owned by St. Margaret Mercy (defined below) are sometimes referred to in the front part of this Official Statement as the "Health Centers").

On the Issue Date, the following corporations will be Designated Group Affiliates: St. Margaret Mercy Healthcare Centers, Inc. ("St. Margaret Mercy"), Catholic Health Midwest, Inc. ("CHM"), St. Francis Hospital and Health Centers, Inc. ("St. Francis - Central Indiana"), St. Anthony Memorial Health Centers, Inc. ("St. Anthony Memorial"), Alverno Clinical Laboratories, Inc. ("Alverno Lab"), St. James Hospital and Health Centers, Inc. ("St. James"), St. Anthony Medical Center of Crown Point, Inc. ("SAMC") and St. Clare Medical Center, Inc. ("St. Clare").

See the map of the facilities owned by the Corporation and the Designated Group Affiliates on the Issue Date on the inside cover of this Official Statement. The map also includes the facilities in Lafayette, Indiana in which the Corporation holds a 50% investment interest and which are owned by Greater Lafayette Health Services, Inc. ("GLHS").

The System primarily operates in four markets shown on the map which appears on the inside cover page of this Official Statement. These four markets include: (i) the Central Indiana Market which is comprised of Beech Grove, Indianapolis, Mooresville and Crawfordsville, Indiana (the "Central Indiana Market"), (ii) the Lafayette Market which is comprised of Lafayette, Indiana (the "Lafayette Market"), (iii) the Northwestern Indiana Market which is comprised of Crown Point, Michigan City, Hammond and Dyer, Indiana (the "Northwestern Indiana Market") and (iv) the Southern Chicagoland Market which is comprised of Olympia Fields and Chicago Heights, Illinois (the "Southern Chicagoland Market"). The System continually evaluates acquisition opportunities in accordance with its strategic goal to become a dominant provider in each of its markets and maintain an acute-care focus in community-based delivery systems. See Appendix A for further information regarding the facilities operated by the Corporation in the above-described markets.

#### **The Master Indenture**

The Series 2000 Bonds are secured under the provisions of the Indenture and Loan Agreement and will be payable from payments required to be made by the Corporation under the Loan Agreement, from payments made by the Members of the Obligated Group (as defined below) on the 2000 Obligations (as defined below) issued by the Corporation under the Master Indenture (as defined below) and from certain funds held under the Indenture. The 2000 Obligations will be issued by the Corporation under and pursuant to the terms of the Master Indenture, whereunder the Members of the Obligated Group jointly and severally are obligated to make payments on the 2000 Obligations according to the terms thereof when due. The Corporation is currently the only Member of the Obligated Group under the Master Indenture. Payments on each Obligation (as defined below) are required to be in an amount sufficient to pay when due the principal of and premium, if any, and interest on the bonds secured by such Obligation. The Series 2000 Bonds are secured solely by the Indenture and are payable solely from payments under the Loan Agreement and the 2000 Obligations.

The Corporation is currently a party to a Master Trust Indenture (the "Master Indenture"), dated as of November 1, 1997 with Bank One Trust Company, N.A., as master trustee (the "Master Trustee"). The Corporation and other entities which become jointly and severally liable with the Corporation with respect to obligations (the "Obligations") issued under the Master Indenture will be referred to herein collectively as the "Obligated Group" or "Members of the Obligated Group," and, each individually, as a "Member of the Obligated Group."

Subject to certain conditions described herein, additional Members may be added from time to time to the Obligated Group and made jointly and severally liable with the Corporation with respect to Obligations Outstanding under the Master Indenture. Additionally, Members may withdraw from the Obligated Group from time to time and be released from all liability with respect to Obligations. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE -- Entrance into the Obligated Group" and -- "Cessation of Status as a Member of the Obligated Group" in Appendix D.

## Outstanding Indebtedness

On the Issue Date, certain other Obligations hereinafter described will be outstanding under the Master Indenture. On March 1, 1999, the Indiana Authority issued \$150,000,000 of its Hospital Revenue Bonds, Series 1999A (Sisters of St. Francis Health Services, Inc. Project) (the "1999A Bonds") currently outstanding in the principal amount of \$150,000,000 to acquire the St. Anthony Medical Center-Crown Point Facilities (the "SAMC Transaction"), to defease certain debt assumed in connection with the SAMC Transaction and to finance certain capital projects. The 1999A Bonds are secured by the Corporation's Master Note Obligation, Series 1999A (the "1999A Obligation").

On December 4, 1997, the Indiana Authority issued \$169,465,000 of its Hospital Revenue Bonds, Series 1997A (Sisters of St. Francis Health Services, Inc. Project) (the "1997A Bonds") currently outstanding in the principal amount of \$163,440,000 to refund certain outstanding indebtedness and finance certain capital projects. The 1997A Bonds are secured by the Corporation's Master Note Obligation, Series 1997A ("1997A Obligation").

On December 4, 1997, the Illinois Authority issued \$30,535,000 of its Hospital Revenue Bonds, Series 1997B (Sisters of St. Francis Health Services, Inc. Project) (the "1997B Bonds" collectively with the 1997A Bonds, the "1997 Bonds") currently outstanding in the principal amount of \$29,460,000 to refund certain outstanding indebtedness and finance certain capital projects. The 1997B Bonds are secured by the Corporation's Master Note Obligation, Series 1997B ("1997B Obligation," collectively with the 1997A Obligation and the 1999A Obligation the "Prior Obligations").

## Interest Rate and Tender

The Series 2000 Bonds initially will bear interest at an Auction Rate (the "Auction Rate") as described herein under "THE SERIES 2000 BONDS - Interest During the Auction Rate Period." The initial Auction Rate will be applicable from the date of initial delivery of the Series 2000 Bonds through and including May 16, 2000, and interest at such Auction Rate will be payable on May 17, 2000. Thereafter, the Series 2000 Bonds will bear interest at an Auction Rate determined as described herein unless and until they are converted to a different Rate Period, as described herein under the caption "THE SERIES 2000 BONDS - Conversion from Auction Rate Period." The interest rate on the Series 2000 Bonds may not exceed the lesser of 15% per annum and the maximum rate permitted by law. There are no provisions for optional tender of the Series 2000 Bonds during an Auction Rate Period, but Series 2000 Bonds to be converted to bear interest at another Rate Period are required to be tendered for purchase.

The Indenture provides that all or a portion of the Series 2000 Bonds may be converted to bear interest at a Variable Rate for one of the following Interest Periods: Daily Rate Period, Weekly Rate Period, Quarterly Rate Period, Semiannual Rate Period or Adjustable Long Term Rate Period. See "THE SERIES 2000 BONDS - Series 2000 Bonds Bearing Interest at a Variable Rate or Fixed Rate." **If the Rate Period for any of the Series 2000 Bonds is changed to a different Rate Period, the Corporation will supplement this Official Statement or deliver a new official statement describing the new Rate Period.** The holders of Series 2000 Bonds bearing interest at Variable Rates may elect to tender their Series 2000 Bonds for purchase from and to the extent of the sources of funds described herein at a price of 100% of the principal amount thereof plus any accrued and unpaid interest thereon (the "Tender Price"). See the caption "THE SERIES 2000 BONDS - Optional Tenders of Series 2000 Bonds Bearing Interest at a Variable Rate." In addition, holders of Series 2000 Bonds bearing interest at Variable Rates may be required to tender their Series 2000 Bonds for purchase at the Tender Price in certain circumstances described herein under the caption "THE SERIES 2000 BONDS - Mandatory Tenders."

In certain circumstances, upon conversion of the Series 2000 Bonds to a Variable Rate, the Corporation is required to maintain a Liquidity Facility. See "APPENDIX D - Summary of Principal Documents." **The Series 2000 Bonds initially will bear interest at an Auction Rate and no Liquidity Facility will be in effect on the Issue Date.**

The Indenture also provides that all or a portion of the Series 2000 Bonds may be converted to bear interest at a Fixed Interest Rate. See "THE SERIES 2000 BONDS - Fixed Rate Conversion at Option of Corporation."

## THE ISSUERS

### The Indiana Authority

The Indiana Authority was created in 1983 pursuant to the provisions of the Indiana Act and is organized and existing under and by virtue of the Indiana Act as a public body politic and corporate, not an agency of the State of Indiana (the "State"), authorized to make loans to participating providers (as defined in the Indiana Act) in order to provide funds to finance, refinance and provide reimbursements for all or a portion of any and all costs authorized under the Indiana Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of "health facility property" (as defined in the Indiana Act). The Indiana Authority has no taxing power.

The Indiana Act provides that the Indiana Authority shall consist of seven members appointed by the Governor of the State of Indiana for staggered terms of four years each and including at least one trustee, director, officer or employee of a health care provider or an association of health care providers, at least one person with experience in the field of state and municipal finance and at least one person with experience in the hospital building construction field or the hospital equipment field. All Indiana Authority members must be residents of the State, with not more than four of such members being of the same political party. All Indiana Authority members serve without compensation but are entitled to reimbursement for actual and necessary expenses as determined by the Indiana Authority. The members of the Indiana Authority elect a chairman, vice chairman and other officers and appoint an Executive Director to serve at the pleasure of such members and to receive such compensation as they shall determine. The Executive Director serves as an ex officio secretary of the Indiana Authority, administers, manages and directs the employees of the Indiana Authority (under the direction of the members of the Indiana Authority), approves all accounts and expenses and performs other additional duties as directed by the members of the Indiana Authority.

The following persons, including those persons with the particular types of experience required by the provisions of the Indiana Act, constitute the present membership of the Indiana Authority:

**Deborah A. Sturges**, Chair. Term expires: July 1, 2001. Residence: Fort Wayne, Indiana. Senior Vice President and Executive Director, Waterfield Mortgage, Fort Wayne, Indiana. Member of the Board of Directors of Parkview Hospital, the Allen County Local Education Fund and the Fort Wayne Community Schools Construction Trade Board; Member of the Strategic Planning Committee for Parkview Health Systems, Inc.; Campaign Chair of the United Way of Allen County; and former Chairman of the Allen County Drug and Alcohol Consortium.

**John F. Gaither, C.P.A.**, *Vice Chair*. Term expires: July 1, 2003. Residence: Evansville, Indiana. Retired Partner of the Certified Public Accounting firm of Gaither Rutherford & Co., Evansville, Indiana. Consultant in health care, former Divisional Controller of Whirlpool Corporation, former Assistant Professor at the University of Evansville; former Member of Indiana Hospital Rate Review Committee and Indiana Transportation Coordinating Board; former Chairman of Indiana University Medical School Community Advisory Committee; the Indiana Energy and Utility Regulation Advisory Commission, and the Governor's Select Commission on Educational Finance; former City Controller and Deputy Mayor of Evansville, Indiana.

**William F. Haley**, *Treasurer*. Term expires: July 1, 2000. Residence: Terre Haute, Indiana. President, The Irish Group, Incorporated; Vice President, Con-Tex Construction; Vice President of the Catholic Charities of Terre Haute; Secretary, Goodman & Wolfe, Inc.; Member, The Men of Carmel; Volunteer, Ryves Hall Youth Center.

**Marjorie A. Towell**, *Member*. Term expires: July 1, 2000. Residence: Noblesville, Indiana. Executive Director, Marion County Mental Health Association; Member of the Board of Midtown Community Mental Health Center; Member of St. Vincent's Stress Center; Coalition for Homelessness Intervention & Preservation; Indiana Division of Mental Health Children's Bureau; Marion County Dawn Consortium; Rotary Club of Indiana; Governor's Council for State Operated Facilities; Secretary, Drug Free Marion County; Council of Volunteers and Organizations

for Hoosiers with Disabilities; United Way of Central Indiana Agency Executives Council; American Society of Mental Health Association Professionals; and the Mental Health Association of Indiana's Public Policy Committee.

**Carl L. Bradley, Member.** Term expires: July 1, 2002. Residence: Fort Wayne, Indiana. Retired Principal, Vintage Archonics, Inc. Architects Engineers Planners of Fort Wayne, Indiana; Fellow, American Institute of Architects; past President, Indiana Society of Architects; former Chairman, Construction Industry Arbitration Committee of the American Arbitration Association; former Director, Fort Wayne Chamber of Commerce, Allen County Historical Society, American Federal Savings and Indiana Capital Corporation.

**Linda C. Zappia, Member.** Term expires: July 1, 2001. Residence: Carmel, Indiana. Executive Vice President, The Huntington National Bank of Indiana; Board of Directors, Indiana Statewide Certified Development Corporation, Marion County Mental Health Association, The Villages and Indiana Community Business Credit Corporation; Advisory Board Member, Hoosier Capital Girl Scout Council.

**L. Richard Gohman, Member.** Term expires: July 1, 2002. Residence: Fishers, Indiana. Attorney at Law and Shareholder with the law firm of Hall, Render, Killian, Heath & Lyman, P.S.C., Indianapolis, Indiana. Professional experience includes Senior Analyst for the Indiana State Budget Agency (1967-1971); Deputy Commissioner for Indiana Commission for Higher Education (1971-1973); and Assistant Vice President/Assistant Treasurer and Assistant to the President/Legal Counsel (1973-1982) Indiana Vocational Technical College. Member of the National Health Lawyers Association; American Bar Association and Indiana State Bar Association; appointed to the Indiana Medicaid Advisory Committee; and also admitted to practice law in the District of Columbia.

**Jill Harris Tanner, Executive Director.** Residence: Zionsville, Indiana. Attorney at Law and former Partner of the law firm of Baker & Daniels, where she practiced in the areas of health care and tax-exempt financing. Member, Indiana Supreme Court Character and Fitness Committee; Director and Past President of the Rotary Club of Indianapolis-Sunrise. Member of the American Health Lawyers Association.

Under the Indiana Act, the Indiana Authority has all powers necessary to carry out and effectuate its public and corporate purposes, including without limitation, the power to issue bonds, acquire property, make loans and pay debt service and other expenses of the Indiana Authority.

The Indiana Authority has, as of April 1, 2000, issued and sold 105 issues of revenue obligations in the aggregate principal amount of \$3,999,944,132 all of which are being or have been repaid in accordance with their respective terms. The Indiana Bonds neither have nor will have any claim of payment from the security or revenues pledged for the payment of the obligations discussed above and no such obligations have or will have any claim of payment from the security or revenues pledged for the payment of the Indiana Bonds. Obligations of the Indiana Authority still outstanding subsequent to the issuance of the Indiana Bonds are payable solely from the revenues derived from the programs or from participating providers in connection with which such obligations were issued. The Indiana Authority has closed 8 loans to Indiana hospitals under its Medical Equipment Financing Program in the aggregate amount of \$11,352,500.

Further, as of the date of this Official Statement, the Indiana Authority is considering undertaking other types of financings for purposes authorized by and in accordance with the procedures set forth in the Indiana Act. The obligations issued by the Indiana Authority in connection with any and all such additional financings, if any, will be secured separately from the Indiana Bonds and will not constitute Indiana Bonds.

The Indiana Bonds are special and limited obligations of the Indiana Authority and will be payable solely from and secured exclusively by payments, revenues and other amounts pledged thereto pursuant to the Indenture. The Indiana Bonds do not represent or constitute a debt of the Indiana Authority or the State of Indiana or any political subdivision thereof within the meaning of the provisions of the constitution or statutes of the State of Indiana or a pledge of the faith and credit of the Indiana Authority or the State of Indiana or any political subdivision thereof, and the Indiana Bonds do not grant to the owners or holders thereof any right to have the Indiana Authority or the State of

Indiana or any political subdivision thereof levy any taxes or appropriate funds for the payment of the principal thereof or interest thereon. The Indiana Authority has no taxing power.

The Indiana Act provides that the State of Indiana pledges to, and agrees with, holders of any obligations issued under the Indiana Act that it will not limit or alter the rights vested in the Indiana Authority by the Indiana Act until such obligations, together with the interest thereon, are fully met and discharged; provided, however, that nothing in the Indiana Act precludes such limitation or alteration if and when adequate provision shall be made by law for the protection of the owners of such obligations.

**THE INDIANA BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE INDIANA AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE INDIANA INDENTURE. THE INDIANA BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OF INDIANA OR A PLEDGE OF THE FAITH AND CREDIT OF THE INDIANA AUTHORITY OR THE STATE OF INDIANA, OR ANY POLITICAL SUBDIVISION THEREOF AND THE INDIANA BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR INTEREST THEREON. THE INDIANA AUTHORITY HAS NO TAXING POWER.**

#### **The Illinois Authority**

The Illinois Authority is a political subdivision, body politic and corporate, duly organized and validly existing under the laws of the State of Illinois, and is authorized to issue the Illinois Bonds pursuant to its powers under the provisions of the Illinois Act, in accordance with its Resolution and pursuant to the Illinois Indenture.

**THE ILLINOIS BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OR OBLIGATION OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF. PAYMENT OF THE ILLINOIS BONDS, INCLUDING THE PRINCIPAL THEREOF AND THE INTEREST THEREON, IS PAYABLE SOLELY FROM THE FUNDS AND OBLIGATIONS DULY PLEDGED AND DESCRIBED IN THE ILLINOIS INDENTURE AND THE ILLINOIS BONDS. THERE IS NO PLEDGE OF ANY OF THE CREDIT OR THE TAXING POWER, IF ANY, OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF, TO THE OBLIGATIONS OF THE ILLINOIS BONDS AND NO HOLDER OF THE ILLINOIS BONDS CAN EVER SUBMIT A CLAIM AGAINST ANY SUCH CREDIT OR TAXING POWER. THE ILLINOIS AUTHORITY HAS NO TAXING POWERS.**

The offices of the Illinois Authority are located at 233 South Wacker Drive, Chicago, Illinois 60606.

#### **THE SERIES 2000 BONDS**

The Series 2000 Bonds will initially bear interest at the Auction Rate and will be issuable only in fully registered form without coupons in Authorized Denominations of \$25,000 and integral multiples in excess thereof while bearing interest at an Auction Rate.

The Series 2000 Bonds will mature on the Maturity Date (as defined under the caption, "Maturity"). During the Auction Rate Period, the Series 2000 Bonds will bear interest at the Auction Rate determined in the manner described under the caption "Interest During the Auction Rate Period" below. Upon a conversion to a different Rate Period, the Series 2000 Bonds will bear interest at the variable, commercial paper or fixed rate, as the case may be. See the information under the caption "THE SERIES 2000 BONDS - Conversion from Auction Rate Period" herein.

Subject to the provisions described herein under the caption "BOOK-ENTRY SYSTEM," interest on the Series 2000 Bonds is payable by check mailed by the Trustee to the registered owners thereof as of the Record Date (as hereinafter defined), and the principal of, premium and purchase price, if any, on the Series 2000 Bonds are payable to the registered owners thereof upon presentation of the Series 2000 Bonds at the corporate trust office of the Trustee

in Indianapolis, Indiana. Interest during an Auction Rate Period will be calculated on the basis of actual days elapsed during the period divided by a 360-day year.

### **Securities Depository**

Unless a successor Securities Depository is designated pursuant to the Indenture, DTC will act as the Securities Depository for the Series 2000 Bonds. On the date of original issuance of the Series 2000 Bonds, one fully registered Indiana Bond and one fully registered Illinois Bond will be issued in the name of Cede & Co., as nominee of DTC, in the aggregate principal amount of the Series 2000 Bonds. So long as Cede & Co. is the registered owner of the Series 2000 Bonds as nominee of DTC, references herein to the owners or registered owners of the Series 2000 Bonds will mean Cede & Co. and will not mean the Beneficial Owners (as hereinafter defined) of the Series 2000 Bonds. The Securities Depository or its nominee will be the owner of record of all issued and outstanding Series 2000 Bonds, and the Beneficial Owners may not obtain physical possession of the certificates representing the Series 2000 Bonds unless the Securities Depository resigns or is removed by the Corporation or the Trustee at the direction of the Corporation in accordance with the Indenture and no successor Securities Depository is appointed. In such event the Beneficial Owners may obtain physical possession of certificates representing the Series 2000 Bonds that they beneficially own.

So long as DTC is the Securities Depository for the Series 2000 Bonds payments of the principal of, purchase price of, premium, if any, and interest on the Series 2000 Bonds will be made directly by the Trustee to DTC or its nominee. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners of the Series 2000 Bonds is the responsibility of the DTC Participants and Indirect Participants.

For further information regarding DTC and the book-entry only system, see the information herein under the caption "BOOK-ENTRY SYSTEM".

The Beneficial Owners of the Series 2000 Bonds have no right to a Securities Depository. DTC or any successor Securities Depository may resign as Security Depository for the Series 2000 Bonds by giving notice to the Trustee and discharging its responsibilities under applicable law. If DTC is removed or a successor Depository is appointed, the Beneficial Owners of the Series 2000 Bonds shall obtain such Bonds in certificated form. The Corporation or the Trustee shall with the approval of the Auction Agent and the Market Agent and, while the Series 2000 Bonds are in an Auction Rate Period, the Market Agent shall (i) appoint a Securities Depository qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, notify the prior Securities Depository of the appointment of such successor Securities Depository and transfer certificated Series 2000 Bonds to such successor Securities Depository or (ii) notify the Securities Depository of the availability through the Securities Depository of certificated Series 2000 Bonds and transfer certificated Series 2000 Bonds to Securities Depository participants having Series 2000 Bonds credited to their accounts at the Securities Depository. In such event, the Series 2000 Bonds shall no longer be restricted to being registered in the name of the Securities Depository but may be registered in the name of the successor Securities Depository or its nominee or in such names as the Bondholders transferring or receiving the certificated Series 2000 Bonds shall designate in accordance with the Indenture.

In the event that no successor Securities Depository is appointed, such certificated Series 2000 Bonds shall be issued in fully registered form and shall be issued in Authorized Denominations.

In the event that there is no Securities Depository during an Auction Rate Period, no auctions of the Series 2000 Bonds will be held, and the interest rate on the Series 2000 Bonds will be the Maximum Rate, as described herein under the caption "THE SERIES 2000 BONDS -Interest During the Auction Rate Period."

### **Maturity**

While the Series 2000 Bonds bear interest at the Auction Rate, the Series 2000 Bonds will mature on, and the defined term "Maturity Date" shall mean the Interest Payment Date immediately following November 1, 2030. Upon



a conversion of the Series 2000 Bonds to a Daily Rate Period, Weekly Rate Period, Quarterly Rate Period, Semiannual Rate Period, Adjustable Long Term Rate Period, Commercial Paper Rate Period or Fixed Rate Period, the Series 2000 Bonds will mature on, and the defined term "Maturity Date" shall mean November 1, 2030.

### **Interest During the Auction Rate Period**

The Series 2000 Bonds will initially be issued in, and will bear interest at, the Auction Rate. Interest on the Series 2000 Bonds during the Auction Rate Period (which initially will be a twelve day period commencing on the date of issuance of the Series 2000 Bonds and ending on the Tuesday of the second succeeding week (the "Initial Auction Rate Period")) will accrue from their date of original issuance and will be payable in arrears commencing on May 17, 2000 (the "Initial Interest Payment Date") and, so long as each Subsequent Auction Rate Period is a Standard Auction Rate Period (which is an Auction Rate Period of 7 days), on each succeeding Wednesday thereafter, provided that if the Corporation designates, as described herein under the caption "—Special Auction Rate Periods," any Subsequent Auction Rate Period as a Special Auction Rate Period that consists of:

(i) fewer than 7 Rate Period Days, interest will be payable monthly on the first Business Day of the month succeeding the end of such Special Auction Rate Period;

(ii) 7 or more but fewer than 92 Rate Period Days, interest will be payable on the Wednesday after the last day of such Special Auction Rate Period;

(iii) 92 or more but fewer than 183 Rate Period Days, interest will be payable on the thirteenth Wednesday after the first day of such Special Auction Rate Period and on the day after the last day of such Special Auction Rate Period;

(iv) 183 or more but fewer than 274 Rate Period Days, interest will be payable on the thirteenth and twenty-sixth Wednesday after the first day of such Special Auction Rate Period and on the day after the last day of such Special Auction Rate Period; or

(v) 274 or more Rate Period Days, interest will be payable on every thirteenth Wednesday after the first day of such Special Auction Rate Period and on the day after the last day of such Special Auction Rate Period;

(each such payment date, subject to the next succeeding proviso, a "Regular Interest Payment Date"), and provided further that if any Wednesday or other day which would otherwise be a Regular Interest Payment Date is not a Business Day, then the Regular Interest Payment Date shall be the first Business Day that falls after such Wednesday or other day. Interest on the Series 2000 Bonds shall also be payable in arrears on (i) the Maturity Date and (ii) any optional redemption date.

The record date for each Regular Interest Payment Date or the Maturity Date will be the Business Day immediately preceding such Regular Interest Payment Date or the Maturity Date (the "Record Date").

The Auction Rate for the period from the date of original issuance to but excluding the Initial Interest Payment Date (the "Initial Auction Rate Period") will be provided by the Underwriter to prospective purchasers of the Series 2000 Bonds during the offering period. The Auction Rate for each Subsequent Auction Rate Period will, subject to certain exceptions described below, be equal to the rate (the "Auction Rate") that the Auction Agent advises has resulted on the Auction Date (as defined below) from the implementation of the auction procedures set forth in the Indenture and summarized below under the caption "—Auctions - Auction Procedures" (the "Auction Procedures") in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell Series 2000 Bonds. Each periodic implementation of the Auction Procedures is hereinafter referred to as an "Auction." As used herein, (i) "Subsequent Auction Rate Period" means the period from and including the Initial Interest Payment Date to but excluding the day immediately proceeding the next Interest Payment Date and each period thereafter from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date, provided that if any Subsequent

Auction Rate Period is also a Special Auction Rate Period consisting of more than 91 days, such term shall mean the period commencing on the first day of such Special Auction Rate Period and ending on the last day of such Special Auction Rate Period thereof and (ii) "Auction Rate Period" means the Initial Auction Rate Period and any Subsequent Auction Rate Period.

The Auction Rate for any Subsequent Auction Rate Period may not exceed the lesser of 15% or the maximum rate permitted by applicable law.

If an Auction for the Series 2000 Bonds for any Subsequent Auction Rate Period is not held for any reason other than the occurrence and continuance of a Payment Default (as defined below), including, without limitation, because there is no Auction Agent, the next succeeding Auction Rate Period will be the Standard Auction Rate Period and the Auction Rate for the next succeeding Subsequent Auction Rate Period will be equal to the Maximum Rate (as defined herein under the caption "—Auctions-Auction Procedures") on the Auction Date for such Auction Rate Period. There could be no Auction Agent for the Series 2000 Bonds if the Auction Agent has resigned, and the Corporation has not appointed a successor not objected to by the Market Agent.

Determination of the Auction Rate pursuant to the Auction Procedures will be terminated on the effective date of a conversion to a different Rate Period. If a notice of a conversion to a different Rate Period is given and because of a failure to satisfy certain of the conditions to the effectiveness of such conversion on the proposed effective date thereof such conversion does not take effect, the next succeeding Auction Rate Period will be the Standard Auction Rate Period and the Auction Rate for the next succeeding Subsequent Auction Rate Period will be equal to the Maximum Rate on the proposed effective date of such change.

If the Series 2000 Bonds are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, no further Auctions will be held, each Subsequent Auction Rate Period will be the Standard Auction Rate Period and the Auction Rate for each Subsequent Auction Rate Period commencing after certificates representing the Series 2000 Bonds are made available will equal the Maximum Rate on the Business Day immediately preceding the first day of such Subsequent Auction Rate Period.

If a Payment Default occurs under the Indenture, Auctions for the Series 2000 Bonds will be suspended, each Subsequent Auction Rate Period will be the Standard Auction Rate Period and the Auction Rate for (x) the Subsequent Auction Rate Period commencing on the date on which such Payment Default occurs, and (y) while such Payment Default is continuing, for each Subsequent Auction Rate Period thereafter to and including the Subsequent Auction Rate Period, if any, during which, or commencing less than two Business Days after, all such Payment Defaults are cured will equal the Overdue Rate as of the first day of each such Subsequent Auction Rate Period. The Overdue Rate means, on the first day of any Subsequent Auction Rate Period, the interest rate per annum equal to 265% of the Municipal Index on such day, provided that in no event shall the Overdue Rate exceed the lesser of (i) 15% per annum and (ii) the maximum rate on such date permitted by Indiana or Illinois Law, as applicable, as the same may be modified by United States law of general application.

"Payment Default" means the default in the due and punctual payment of (a) any installment of interest payable on the Series 2000 Bonds or (b) any principal of, or premium, if any, or interest on, the Series 2000 Bonds at Maturity, by proceedings for redemption, upon acceleration, through failure to make any payment to any fund established under the Indenture or otherwise.

## **Auctions**

**Auction Dates.** Except as otherwise described herein, an Auction to determine the Auction Rate for each Subsequent Auction Rate Period will be held on the Business Day immediately preceding the first day of such Subsequent Auction Rate Period (each an "Auction Date"). The first Auction for the Series 2000 Bonds will be held on Tuesday, May 16, 2000. Thereafter, Auctions for the Series 2000 Bonds will be held on the last Business Day of

each Subsequent Auction Rate Period (normally a Tuesday), and each Subsequent Auction Rate Period will normally begin on the following Business Day (normally a Wednesday).

**Auction Agency Agreement.** The Trustee and the Corporation will enter into an agreement (the "Auction Agency Agreement") with Bankers Trust Company (together with any successor bank or trust company or other entity entering into a similar agreement with the Trustee, the "Auction Agent") which provides, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the Auction Rate so long as the Auction Rate is to be based on the results of an Auction. The Corporation or the Trustee may remove the Auction Agent at any time, provided that such removal shall not take effect until the appointment of a successor Auction Agent.

**Market Agent Agreement.** The Corporation will enter into a market agent agreement (the "Market Agent Agreement") with Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") (together with any successor as market agent entering into a similar agreement with the Trustee, the "Market Agent") which sets forth the Market Agent's duties and responsibilities. Merrill Lynch will not receive any compensation for acting as Market Agent. The Corporation may remove the Market Agent at any time, provided such removal shall not take effect until the appointment of a successor Market Agent by the Corporation.

**Broker-Dealer Agreements.** Each Auction requires the participation of one or more broker-dealers. The Auction Agent will enter into a Broker-Dealer Agreement with Merrill Lynch concurrently with the issuance of the Series 2000 Bonds and may thereafter enter into similar agreements (collectively, the "Broker-Dealer Agreements") with one or more additional broker-dealers (collectively, the "Broker-Dealers") selected by the Corporation which provide for the participation of Broker-Dealers in Auctions.

**Auction Procedures.** The following summary of the Auction Procedures to be used with respect to Auctions is qualified by reference to the Auction Procedures set forth in the Indenture.

As used in this subcaption, (i) "Beneficial Owner" means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as an owner of Series 2000 Bonds, (ii) "Existing Holder" means a Broker-Dealer that is listed as an owner of Series 2000 Bonds on the records of the Auction Agent, (iii) "Potential Beneficial Owner" means a customer of a Broker-Dealer that is not a Beneficial Owner of Series 2000 Bonds but that wishes to purchase Series 2000 Bonds, or that is a Beneficial Owner of Series 2000 Bonds that wishes to purchase an additional principal amount of Series 2000 Bonds and (iv) "Potential Holder" means a Broker-Dealer (or other Person as may be permitted by the Corporation) that is not an Existing Holder that wishes to become the Existing Holder of an additional amount of Series 2000 Bonds.

#### **Orders by Existing Holders and Potential Holders**

Prior to the Submission Deadline (as defined below) on each Auction Date:

- (a) each Beneficial Owner may submit to a Broker-Dealer by telephone or otherwise the following:
  - (i) a Hold Order - indicating the principal amount of Series 2000 Bonds, if any, that such Beneficial Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Rate Period;
  - (ii) a Bid - indicating the principal amount of Series 2000 Bonds, if any, that such Beneficial Owner offers to sell if the Auction Rate for the next succeeding Auction Rate Period shall be less than the rate per annum specified in such Bid by such Beneficial Owner; and/or

(iii) a Sell Order - indicating the principal amount of Series 2000 Bonds, if any, that such Beneficial Owner offers to sell without regard to the Auction Rate for the next succeeding Auction Rate Period; and

(b) One or more Broker-Dealers may contact customers who are Potential Beneficial Owners by telephone or otherwise to determine whether such customers desire to submit Bids, in which such customers will indicate the principal amount of Series 2000 Bonds that they irrevocably offer to purchase if the Auction Rate for the next Auction Rate Period is not less than the interest rates per annum specified in such Bids, and the Broker-Dealers, using lists of Potential Beneficial Owners, shall in good faith, contact such Potential Beneficial Owners (including Persons that are not Beneficial Owners) as are necessary for the purpose of conducting a competitive Auction in a commercially reasonable manner and achieving the lowest possible interest rate on the Series 2000 Bonds.

The communication to a Broker-Dealer of the foregoing information is herein referred to as an "Order" and, collectively, as "Orders." A Beneficial Owner or a Potential Beneficial Owner placing an Order is herein referred to as a "Bidder" and, collectively, as "Bidders." The submission by a Broker-Dealer of an Order to the Auction Agent will likewise be referred to herein as an "Order" and collectively as "Orders," and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent will likewise be referred to herein as a "Bidder" and collectively as "Bidders."

An Order may be submitted only in a principal amount equal to an Authorized Denomination.

A Beneficial Owner may submit different types of Orders to its Broker-Dealer with respect to Series 2000 Bonds then held by such Beneficial Owner. A Bid placed by a Beneficial Owner specifying a rate higher than the Auction Rate determined in the Auction shall constitute an irrevocable offer to sell the Series 2000 Bonds subject thereto. A Beneficial Owner that submits a Bid to its Broker-Dealer having a rate higher than the Maximum Rate on the Auction Date will be treated as having submitted a Sell Order to its Broker-Dealer. A Beneficial Owner that fails to submit to its Broker-Dealer prior to the Submission Deadline an Order or Orders covering the entire principal amount of Series 2000 Bonds held by such Beneficial Owner will be deemed to have submitted a Hold Order to its Broker-Dealer covering the principal amount of Series 2000 Bonds held by such Beneficial Owner and not subject to Orders submitted to a Broker-Dealer, except that a Sell Order shall be deemed to have been submitted on behalf of an Existing Holder if an Order is not submitted on behalf of such Existing Holder in the case of an Auction for an Auction Period changing from a Standard Auction Rate Period (normally 7 days) to a Special Auction Rate Period or from a Special Auction Rate Period to a Special Auction Rate Period that is no more than 10 Rate Period Days longer or shorter than the prior Special Auction Rate Period. A Sell Order shall constitute an irrevocable offer to sell the principal amount of Series 2000 Bonds subject thereto. A Beneficial Owner that offers to purchase additional Series 2000 Bonds is, for purposes of such offer, treated as a Potential Beneficial Owner.

A Potential Beneficial Owner may submit to its Broker-Dealer a Bid in which it offers to purchase the principal amount of Series 2000 Bonds subject to such Bid if the Auction Rate determined in the Auction is not less than the rate specified in such Bid. A Bid placed by a Potential Beneficial Owner specifying a rate not higher than the Maximum Rate shall constitute an irrevocable offer to purchase the principal amount of Series 2000 Bonds specified in such Bid if the rate determined in the Auction is equal to or greater than the rate specified in such Bid. A Bid by a Potential Holder higher than the Maximum Rate will not be considered.

As described more fully below under the subcaption "— Submission of Orders by Broker-Dealers to Auction Agent," the Broker-Dealers will submit the Order of their respective customers who are Beneficial Owners and Potential Beneficial Owners to the Auction Agent, designating themselves as Existing Holders in respect of the Series 2000 Bonds subject to Orders submitted or deemed submitted to them by Beneficial Owners and as Potential Holders in respect of the principal amount of Series 2000 Bonds subject to Orders submitted to them by Potential Beneficial Owners. The Trustee, the Authority, the Corporation and the Auction Agent will not be responsible for a Broker-Dealer's failure to comply with the foregoing. Any Order placed with the Auction Agent by a Broker-Dealer as or on behalf of an Existing

Holder or a Potential Holder will be treated in the same manner as an Order placed with a Broker-Dealer by a Beneficial Owner or a Potential Beneficial Owner, as described in the preceding paragraph. Similarly, any failure by a Broker-Dealer to submit to the Auction Agent an Order in respect of any principal amount of Series 2000 Bonds held by it or its customers who are Beneficial Owners will be treated in the same manner as a Beneficial Owner's failure to submit to its Broker-Dealer an Order in respect of the principal amount of Series 2000 Bonds held by it, as described in the second preceding paragraph. For information concerning the priority given to different types of Orders placed by Existing Holders, see the information below under the subcaption "— Submission of Orders by Broker-Dealers to Auction Agent."

No Obligated Group Member or any affiliate thereof may submit an Order in any Auction.

The Auction Procedures include pro rata allocation of Series 2000 Bonds for purchase and sale, which may result in an Existing Holder's continuing to hold or selling, or a Potential Holder's purchasing, a principal amount of Series 2000 Bonds that is smaller than the principal amount of Series 2000 Bonds specified in its Order. See the information below under the subcaption "— Acceptance of Submitted Bids and Submitted Sell Order and Allocations of Series 2000 Bonds." To the extent the allocation procedures have that result, Broker-Dealers that have designated themselves as Existing Holders or Potential Holders in respect of customer Orders will be required to make the appropriate pro rata allocations among their respective customers. Each purchase or sale of Series 2000 Bonds will be made for settlement on the first Business Day following the Auction Date at a price equal to 100% of the principal amount thereof. See the information below under the subcaption "— Notification of Results; Settlement."

As described above, any Bid specifying a rate higher than the Maximum Rate will (i) constitute an irrevocable offer to sell if submitted by a Beneficial Owner or an Existing Holder and (ii) not be accepted if submitted by a Potential Beneficial Owner or a Potential Holder. Accordingly, the Auction Procedures establish the Maximum Rate as the maximum rate per annum that can result from an Auction. See the information below under the subcaptions "— Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate" and "— Acceptance of Submitted Bids and Submitted Sell Orders and Allocations of Series 2000 Bonds."

As used herein, "Maximum Rate," on any date of determination for any Auction Rate Period, means the interest rate per annum equal to the lower on such date of:

(i) the Applicable Percentage (as defined below) of the higher of (A) the After-Tax Equivalent Rate for a Standard Auction Rate Period on such date and (B) the Municipal Index on such date, unless

(1) such Auction Rate Period is proposed to be a Special Auction Rate Period, in which case, the Applicable Percentage of the highest of:

(x) the higher of (I) the After-Tax Equivalent Rate for an Auction Rate Period equal in length to the then-ending Auction Period on such date and (II) the Municipal Index on such date;

(y) the higher of (I) the After-Tax Equivalent Rate for such Special Auction Rate Period on such date and (II) the Municipal Index on such date;

(z) the higher of (I) the After-Tax Equivalent Rate for a Standard Auction Rate Period on such date and (II) the Municipal Index on such date; or

(2) such Auction Rate Period succeeds a Special Auction Rate Period and an Auction for a Standard Auction Rate Period at which Sufficient Clearing Bids existed has not occurred since such Special Auction Rate Period, in which case, the higher of:

(x) the Auction Rate for the then-ending Auction Rate Period; and

(y) the Applicable Percentage of the higher of (I) the higher of (aa) the After-Tax Equivalent Rate for an Auction Rate Period equal in length to the then-ending Auction Rate Period on such date and (bb) the Municipal Index on such date and (II) the higher of (aa) the After-Tax Equivalent Rate for an Auction Rate Period equal in length to such Special Auction Rate Period on such date and (bb) the Municipal Index on such date; and

(ii) the lesser of (A) 15% per annum or (B) the maximum rate on such date permitted by Indiana law or Illinois law, as applicable, as such rate may be modified by United States law of general application.

"Applicable Percentage," on any date of determination, means the percentage determined as set forth below based on the "prevailing rating" (as defined below) of the Series 2000 Bonds in effect at the close of business on the Business Day immediately preceding such date:

Prevailing Rating	Applicable Percentage
AAA/"Aaa"	150%
AA/"Aa"	165%
A/"A"	175%
BBB/"Baa"	200%
Below BBB/"Baa"	265%

For purposes of this definition, the "prevailing rating" of the Series 2000 Bonds will be:

(a) AAA/"Aaa" if the Series 2000 Bonds have a rating of AAA by Fitch IBCA, Inc. ("Fitch"), and a rating of "Aaa" by Moody's Investors Service ("Moody's"), or the equivalent of such ratings by a substitute rating agency or agencies selected as described below;

(b) if not AAA, ("Aaa") then AA ("Aa") if the Series 2000 Bonds have a rating of AA- or better by Fitch and a rating of "Aa3" or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as described below;

(c) if not AAA/"Aaa" or AA/"Aa", then A/"A" if the Series 2000 Bonds have a rating of A- or better by Fitch and a rating of "A3" or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as described below;

(d) if not AAA/"Aaa", AA/"Aa" or A/"A", then BBB/"Baa" if the Series 2000 Bonds have a rating of BBB- or better by Fitch and a rating of "Baa3" or better by Moody's, or the equivalent of such ratings by a substitute rating agency or agencies selected as described below; and

(e) if not AAA/"Aaa", AA/"Aa", A/"A" or BBB/"Baa", then below BBB/"Baa", whether or not the Series 2000 Bonds are rated by any rating agency.

If the prevailing ratings for the Series 2000 Bonds are split between the categories set forth above, the lower rating shall determine the prevailing rating.

The Corporation has agreed to take all reasonable action necessary to enable at least two nationally recognized statistical rating agencies to provide ratings for the Series 2000 Bonds. If (x) the Series 2000 Bonds are rated by a nationally recognized statistical rating agency or agencies other than Fitch or Moody's, and (y) the Corporation has delivered to the Trustee and the Auction Agent an instrument designating one or two of such rating agencies to replace Fitch or Moody's, or any such other rating agencies, or any of them, then for purposes of the definition of "prevailing rating," Fitch or Moody's, or any such other rating agencies, or any of them, will be deemed to have been replaced in

accordance with such instrument; provided, however, that such instrument must be accompanied by the consent of the Market Agent. For purposes of this paragraph, Fitch's rating categories of AAA, AA, A and BBB and Moody's rating categories of "Aaa", "Aa3", "A3" and "Baa3" refer to and include the respective rating categories correlative thereto in the event that either or both of such rating agencies have changed or modified their generic rating categories, or any such other rating agencies change or modify their generic rating categories.

As used herein, the following terms shall have the following meanings:

"After-Tax Equivalent Rate" means, on any date of determination for any Auction Period, the interest rate per annum equal to the product of:

- (i) (A) if such Auction Period has fewer than 99 Rate Period Days, the "AA" Financial Commercial Paper Rate for such Auction Period on such date, or (B) if such Auction Period has 99 or more Rate Period Days, the Treasury Rate for such Auction Period on such date; and
- (ii) 1.00 minus the lower of (A) the Statutory Corporate Tax Rate or (B) the Statutory Individual Tax Rate on such date.

"AA" Financial Commercial Paper Rate, on any date of determination for any Auction Rate Period, means (A)(1) for any Standard Auction Rate Period or any Special Auction Rate Period with fewer than 12 days, the interest equivalent of the 7-day rate, (2) for any Special Auction Rate Period of (w) 12 or more but fewer than 24 days, the interest equivalent of the 15-day rate; (x) 24 or more but fewer than 45 days, the interest equivalent of the 30-day rate; (y) 45 or more but fewer than 75 days, the interest equivalent of the 60-day rate and (z) 75 or more but fewer than 99 days, the interest equivalent of the 90-day rate, in each case on commercial paper placed on behalf of issuers whose corporate bonds are rated AA by Fitch, or the equivalent of such rating by Fitch or another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for "AA" Financial Commercial Paper for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Merrill Lynch, Goldman, Sachs & Co. and Lehman Commercial Paper Inc. or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination; provided that if any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Financial Commercial Paper Rate, the "AA" Financial Commercial Paper Rate shall be determined on the basis of such quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer, above, which may be CS First Boston Corporation or Morgan Stanley & Co. Incorporated, or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Trustee at the request of the Corporation to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Trustee does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (A) 100 times (B) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.00 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 360.

(iii) "Municipal Index" means, on any date of determination, (A) the tax exempt auction securities index maintained by the Market Agent for reset periods from 5 to 10 days, or, if such index is not available or no longer maintained, (B) an interest index published by the Market Agent representing the weighted average of the yield on tax-exempt commercial paper, or tax-exempt bonds bearing interest at a commercial paper rate or pursuant to a commercial

paper mode, having a range of maturities or mandatory purchase dates between 7 and 10 days traded during the immediately preceding five Business Days.

(iv) "Treasury Rate," on any date of determination for any Auction Rate Period, means (A) the bond equivalent yield, calculated in accordance with prevailing industry convention, of the rate on the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Rate Period, as quoted in *The Wall Street Journal* on such date for the Business Day next preceding such date; or (B) in the event that any such rate is not published in *The Wall Street Journal*, then the bond equivalent yield, calculated in accordance with prevailing industry convention, as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligation of the United States Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Rate Period, based on bid price quotations on such date obtained by the Auction Agent from any two of the following: Merrill Lynch, Goldman Sachs & Co. and Lehman Brothers or their respective affiliates or successors, if such entities are dealers of U.S. Government Securities.

#### Submission of Orders by Broker-Dealers to Auction Agent

Prior to 1:00 p.m., New York City time, on each Auction Date, or such other time on the Auction Date specified by the Auction Agent (the "Submission Deadline"), each Broker-Dealer will submit to the Auction Agent in writing all Orders obtained by it for the Auction to be conducted on such Auction Date designating itself as the Existing Holder or Potential Holder in respect of the principal amount of Series 2000 Bonds subject to such Orders. Any Order submitted by a Beneficial Owner or a Potential Beneficial Owner to its Broker-Dealer, or by a Broker-Dealer to the Auction Agent, prior to the Submission Deadline on any Auction Date, shall be irrevocable.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Series 2000 Bonds held by such Existing Holder, such Orders shall be considered valid in the following order or priority:

(i) all Hold Orders shall be considered valid, but only up to and including the aggregate principal amount of Series 2000 Bonds held by such Existing Holder;

(ii) (A) any Bid shall be considered valid up to and including the excess of the aggregate principal amount of Series 2000 Bonds held by such Existing Holder over the aggregate principal amount of Series 2000 Bonds subject to any Hold Order referred to in clause (i) above;

(B) subject to subclause (A), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Series 2000 Bonds subject to such Bids is greater than such excess, such bids shall be considered valid up to and including the amount of such excess;

(C) subject to subclauses (A) and (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(D) in any such event, the aggregate principal amount of outstanding Series 2000 Bonds, if any, subject to Bids not valid under this clause (ii) shall be treated as the subject of a Bid by a Potential Holder at the rate specified therein; and



(iii) all Sell Orders shall be considered valid but only up to and including the excess of the aggregate principal amount of Series 2000 Bonds held by such Existing Holder over the aggregate principal amount of Series 2000 Bonds subject to Hold Orders referred to in clause (i) and valid Bids by such Existing Holder referred to in clause (ii) above.

If more than one Bid is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount of Series 2000 Bonds therein specified.

Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Series 2000 Bonds not equal to an Authorized Denomination shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Series 2000 Bonds not equal to an Authorized Denomination thereof shall be rejected.

#### Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate

Not earlier than the Submission Deadline on each Auction Date, the Auction Agent will assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Hold Order, Bid or Sell Order as submitted or deemed submitted by a Broker-Dealer being herein referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and will determine the excess of the outstanding principal amount of Series 2000 Bonds over the sum of the aggregate principal amount of Series 2000 Bonds subject to Submitted Hold Orders (such excess being herein referred to as the "Available Series 2000 Bonds") and whether Sufficient Clearing Bids have been made in the Auction on such Auction Date. Sufficient Clearing Bids will have been made if the aggregate principal amount of Series 2000 Bonds subject to Submitted Bids by Potential Holders specifying rates equal to or lower than the Maximum Rate equals or exceeds the aggregate principal amount of Series 2000 Bonds subject to Submitted Sell Orders (including the principal amount of Series 2000 Bonds subject to Submitted Bids by Existing Holders specifying rates higher than the Maximum Rate).

If Sufficient Clearing Bids have been made, the Auction Agent will determine the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which, taking into account the rates in all Submitted Bids of Existing Holders, would result in Existing Holders continuing to hold an aggregate principal amount of Series 2000 Bonds which, when added to the principal amount of Series 2000 Bonds to be purchased by Potential Holders, based on the rates in their Submitted Bids, would equal to not less than the Available Series 2000 Bonds. In such event, the Winning Bid Rate will be the Auction Rate for the next Auction Rate Period.

If Sufficient Clearing Bids have not been made (other than because all Series 2000 Bonds are subject to Submitted Hold Orders), the next Auction Rate Period will be the Standard Auction Rate Period and the Auction Rate for the next Auction Rate Period will be the Maximum Rate. **If Sufficient Clearing Bids have not been made, Existing Holders that have submitted Sell Orders may not be able to sell in the Auction all Series 2000 Bonds subject to such Submitted Sell Orders.** See the information below under the subcaption "— Acceptance of Submitted Bids and Submitted Sell Orders and Allocations of Series 2000 Bonds." None of the Authority, any Obligated Group Member, the Trustee, any Broker-Dealer, the Corporation or any other person is required to provide money to purchase Series 2000 Bonds if Sufficient Clearing Bids do not exist.

If all of the Series 2000 Bonds are subject to Submitted Hold Orders, the Auction Rate for the next Auction Rate Period will be equal to the Minimum Rate, which shall be, on the date of determination, the interest rate per annum equal to 90% of the higher of (i) the After-Tax Equivalent Rate for the "AA" Financial Commercial Paper Rate for the applicable Auction Rate Period and (ii) the Municipal Index on such date, provided, however, that such Minimum Rate may not exceed the lesser of (x) 15% per annum or (y) the maximum rate on such date permitted by Indiana law or Illinois law, as applicable, as the same may be modified by United States law of general application.

#### Acceptance of Submitted Bids and Submitted Sell Orders and Allocations of Series 2000 Bonds

Based on the determinations as described above under the subcaption "—Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate" and subject to the discretion of the Auction Agent to round off fractional amounts as described below, Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the order of priority set forth in the Auction Procedures with the result that Existing Holders and Potential Holders of the Series 2000 Bonds shall sell, continue to hold and/or purchase the Series 2000 Bonds as set forth below. Existing Holders that submitted or were deemed to have submitted Hold Orders (or on whose behalf Hold Orders were submitted or deemed to have been submitted) shall continue to hold the Series 2000 Bonds subject to such Hold Orders.

If Sufficient Clearing Bids have been made:

- (a) each Existing Holder that placed or on whose behalf was placed a Submitted Sell Order or Submitted Bid specifying a rate higher than the Winning Bid Rate shall sell the aggregate principal amount of the Series 2000 Bonds subject to such Submitted Sell Order or Submitted Bid;
- (b) each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate lower than the Winning Bid Rate shall continue to hold the aggregate principal amount of the Series 2000 Bonds subject to such Submitted Bid;
- (c) each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate lower than the Winning Bid Rate shall purchase the aggregate principal amount of the Series 2000 Bonds subject to such Submitted Bid;
- (d) each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to the Winning Bid Rate shall continue to hold the principal amount of the Series 2000 Bonds subject to such Submitted Bid, unless the aggregate principal amount of the Series 2000 Bonds subject to all such Submitted Bids is greater than the principal amount of available Series 2000 Bonds less the aggregate principal amount of Series 2000 Bonds subject to Submitted Bids described in clauses (b) and (c) above, in which event each Existing Holder with such a Submitted Bid shall continue to hold a principal amount of outstanding Series 2000 Bonds subject to such Submitted Bid determined on a pro rata basis based on the aggregate principal amount of outstanding Series 2000 Bonds subject to all such Submitted Bids by Existing Holders; and
- (e) each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to the Winning Bid Rate shall purchase any available Series 2000 Bonds not accounted for in clause (b), (c), or (d) above on a pro rata basis based on the aggregate principal amount of outstanding Series 2000 Bonds subject to all such Submitted Bids.

If Sufficient Clearing Bids have not been made (other than because all of the Series 2000 Bonds are subject to Submitted Hold Orders):

- (a) each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to or lower than the Maximum Rate shall continue to hold the aggregate principal amount of the Series 2000 Bonds subject to such Submitted Bid;
- (b) each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to or lower than the Maximum Rate shall purchase the aggregate principal amount of the Series 2000 Bonds subject to such Submitted Bid; and
- (c) each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate higher than the Maximum Rate or a Submitted Sell Order shall sell a portion of the principal amount of the Series 2000

Bonds determined on a pro rata basis based on the aggregate principal amount of the Series 2000 Bonds subject to such Submitted Bids and Submitted Sell Orders.

If all of the Series 2000 Bonds are subject to Submitted Hold Orders, all Submitted Bid Orders will be rejected.

If, as a result of the Auction Procedures, (i) any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Series 2000 Bonds that is not equal to an Authorized Denomination, the Auction Agent shall, in such manner as, in its sole discretion, it will determine, round up or down the principal amount of the Series 2000 Bonds being sold or purchased on such Auction Date by an Existing Holder or Potential Holder so that the principal amount of Series 2000 Bonds sold or purchased by each Existing Holder or Potential Holder will be equal to an Authorized Denomination or (ii) any Potential Holder would be entitled or required to purchase less than an Authorized Denomination principal amount of the Series 2000 Bonds, the Auction Agent will, in such manner as, in its sole discretion, it determines, allocate principal amounts of the Series 2000 Bonds for purchase among Potential Holders so that only principal amounts of the Series 2000 Bonds equal to Authorized Denominations are purchased by any such Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing the Series 2000 Bonds.

#### **Notification of Results; Settlement**

The following summary of the Settlement Procedures to be used with respect to Auctions is qualified by reference to the Settlement Procedures attached hereto as Appendix F.

The Auction Agent is required to advise each Broker-Dealer that submitted an Order of the Auction Rate for the next Auction Rate Period and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone by approximately 3:00 p.m., New York City time, on each Auction Date. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Auction Rate for the next Auction Rate Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling the Series 2000 Bonds as a result of the Auction and advise each Bidder purchasing or selling the Series 2000 Bonds as a result of the Auction to give instructions to its Securities Depository participant to pay the purchase price against delivery of such Series 2000 Bonds or to deliver such Series 2000 Bonds against payment therefor, as appropriate. The Auction Agent will record each transfer of Series 2000 Bonds on the registry of Existing Holders to be maintained by the Auction Agent.

In accordance with the Securities Depository's normal procedures, on the Business Date after the Auction Date, the transactions described above will be executed through the Securities Depository and the accounts of the respective Securities Depository participants at the Securities Depository will be debited and credited and the Series 2000 Bonds delivered as necessary to effect the purchases and sales of the Series 2000 Bonds as determined in the Auction. Purchasers are required to make payment through their Securities Depository participants in same-day funds to the Securities Depository against delivery through their Securities Depository participants. The Securities Depository will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Securities Depository participants in same-day funds.

If any Existing Holder selling the Series 2000 Bonds in an Auction fails to deliver such Series 2000 Bonds, the Broker-Dealer of any person that was to have purchased the Series 2000 Bonds in such Auction may deliver to such person a principal amount of Series 2000 Bonds that is less than the principal amount of the Series 2000 Bonds that otherwise was to be purchased by such person but in any event equal to an Authorized Denomination. In such event, the principal amount of the Series 2000 Bonds to be delivered shall be determined by such Broker-Dealer. Delivery of such lesser principal amount of Series 2000 Bonds shall constitute good delivery of such lesser principal amount, provided that this provision shall not limit any rights that a prospective purchaser of the Series 2000 Bonds may have as a result of such a failure by any person to deliver the Series 2000 Bonds.

## **Concerning the Auction Agent**

Bankers Trust Company is the initial Auction Agent and, together with any successor Auction Agent, will act as agent for the Trustee in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

The Auction Agent may terminate the Auction Agency Agreement upon notice to the Trustee, the Authority, the Corporation and the Market Agent on a date no earlier than 105 days after the date of delivery of such notice. If the Auction Agent should resign or be removed, the Corporation or the Trustee is obligated to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent not objected to by the Market Agent containing substantially the same terms and conditions as the Auction Agency Agreement.

On the Interest Payment Date for each Interest Period for each Auction Rate Period immediately following an Auction Date, the Auction Agent will be entitled to receive a fee for all services rendered by it under the Auction Agency Agreement and the Broker-Dealer Agreements with respect to the Auction held on such Auction Date in an amount initially equal to an annualized rate of .03 of 1% of the aggregate principal amount of the Series 2000 Bonds in an Auction Rate Period upon which interest is paid (the "Auction Agent Fee"). In addition, the Auction Agent will be entitled to receive on the Initial Interest Payment Date the Auction Agent Fee calculated for the Initial Auction Rate Period on the initial aggregate principal amount of the Series 2000 Bonds for all services rendered by it in connection with the original issuance of the Series 2000 Bonds.

## **Broker-Dealers**

On the Interest Payment Date for each Auction Rate Period immediately following an Auction Date, each Broker-Dealer will be entitled to receive a service charge with respect to the Auction held on such Auction Date in an amount initially equal to an annualized rate of .25 of 1% of the aggregate principal amount of the Series 2000 Bonds upon which interest is paid and which were placed by such Broker-Dealer at such Auction (all such fees are collectively referred to herein as the "Broker-Dealer Fee"). For purposes of the preceding sentence, the Series 2000 Bonds will be deemed to have been placed by a Broker-Dealer in an Auction if such Series 2000 Bonds were (i) the subject of Hold Orders deemed to have been submitted to the Auction Agent by the Broker-Dealer and were acquired by such Broker-Dealer for its own account or were acquired by such Broker-Dealer for its customers who are Beneficial Owners or (ii) the subject of an Order submitted by such Broker-Dealer that is (A) a Submitted Bid of an Existing Holder that resulted in such Existing Holder continuing to hold such Series 2000 Bonds as a result of the Auction, (B) a Submitted Bid of a Potential Holder that resulted in such Potential Holder purchasing such Series 2000 Bonds as a result of the Auction or (C) a valid Hold Order. In addition, if an Auction is for any reason not held on an Auction Date, the Series 2000 Bonds that will be deemed to have been placed by a Broker-Dealer in such Auction are such Series 2000 Bonds as were acquired by an Existing Holder through such Broker-Dealer. Each Broker-Dealer will also be entitled to receive a service charge on the Initial Interest Payment Date calculated for the Initial Auction Rate Period on the aggregate principal amount of the Series 2000 Bonds initially sold by such Broker-Dealer or an affiliate thereof as an underwriter in the initial offering of the Series 2000 Bonds.

**If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders because it would have knowledge of Orders placed through it in that Auction; however, such Broker-Dealer would not have knowledge of Orders submitted by other Broker-Dealers in the Auction. Orders submitted by a Broker-Dealer for its own account in any Auction could affect the Auction Rate determined in such Auction.**

## Special Auction Rate Periods

The Corporation may designate any succeeding Subsequent Auction Rate Period as a "Special Auction Rate Period" that consists of a specified number of Rate Period Days not fewer than one day and not more than 364 and, if such Rate Period is greater than six Rate Period Days, evenly divisible by seven, subject to adjustment as provided below. A designation of a Special Auction Rate Period shall be effective only if (A) notice thereof shall have been given as described below, (B) an Auction has been held on the Auction Date for such proposed Special Auction Rate Period and Sufficient Clearing Bids have existed in such Auction, and (C) (i) there shall have been delivered to the Authority and the Trustee a letter of the Market Agent to the effect that, in the judgment of the Market Agent, a change from the Standard Auction Rate Period to a Special Auction Rate Period of the length provided in such letter is most likely to achieve the lowest total cost payable by the Authority and the Corporation with respect to the Series 2000 Bonds, taking into account interest and other determinable fees and expenses or (ii) there shall have been delivered to the Trustee the written approval of such change by the Corporation or a duly authorized officer of the Corporation. No Special Auction Rate Period shall end after the Maturity Date of the Series 2000 Bonds.

In the event the Corporation designates a Subsequent Auction Rate Period as a Special Auction Rate Period, but the day following what would otherwise be the last day of such Special Auction Rate Period is not a Wednesday that is a Business Day and the Corporation has not otherwise delivered its notice to designate another Special Auction Rate Period, then the Corporation shall designate such Subsequent Auction Rate Period as a Special Auction Rate Period consisting of the period commencing on the first day following the end of the immediately preceding Auction Rate Period and ending on the first day that is followed by a Wednesday that is a Business Day preceding what would otherwise have been the last day of such Special Auction Rate Period.

If the Corporation proposes to designate any succeeding Subsequent Auction Rate Period as a Special Auction Rate Period, not less than 10 (or such lesser number of days as may be agreed to from time to time by the Auction Agent) or more than 30 days prior to the date the Corporation designates as the first day of such Special Auction Rate Period (which shall be the day that would otherwise be the first day of the next succeeding Auction Rate Period), the Corporation is required (A) to give written notice to the Trustee, the Authority, the Auction Agent, the Market Agent and the Securities Depository stating (1) that the Corporation has determined to designate the next succeeding Subsequent Auction Rate Period as a Special Auction Rate Period, specifying the same and the first and last days thereof, (2) the Auction Date immediately prior to the first day of such Special Auction Rate Period, (3) that such Special Auction Rate Period shall not commence if (x) an Auction shall not be held on such Auction Date for any reason or (y) an Auction shall be held on such Auction Date but Sufficient Clearing Bids shall not exist in such Auction, and (4) the Regular Interest Payment Dates during such Special Auction Rate Period; and (B) to deliver to the Trustee, the Auction Agent and the Market Agent, an Opinion of Bond Counsel to the effect that such designation of a Special Auction Rate Period will not have an adverse effect on the exclusion of interest on the Series 2000 Bonds from gross income for federal income tax purposes.

No later than 3:00 P.M., New York City time, on the second Business Day next preceding the first day of any proposed Special Auction Rate Period (or such later time or date, or both, as may be agreed to by the Auction Agent), the Corporation shall deliver to the Auction Agent, the Trustee, the Authority and the Market Agent, a notice stating that the Corporation has determined not to exercise its option to designate a Special Auction Rate Period and that the next succeeding Subsequent Auction Rate Period shall be a Standard Auction Rate Period.

If the Corporation fails to deliver either of the notices or the opinion specified above on or prior to the date and time specified above, the next succeeding Subsequent Auction Rate Period shall be a Standard Auction Rate Period.

**Investors who purchase the Series 2000 Bonds having an extended Initial Auction Rate Period or who purchase the Series 2000 Bonds in an Auction for a Special Auction Rate Period should note that because the interest rate on the Series 2000 Bonds will be fixed for the length of such Auction Rate Period, the value of the Series 2000 Bonds may fluctuate in response to changes in interest rates, and may be more or less than their original cost if sold on the open market in advance of the next Auction, depending on market conditions.**

### **Restrictions on Transfers during Auction Rate Period**

So long as ownership of the Series 2000 Bonds is maintained in book-entry form by the Securities Depository, a Beneficial Owner or an Existing Holder of the Series 2000 Bonds may sell, transfer or otherwise dispose of the Series 2000 Bonds only pursuant to a Bid or Sell Order placed in an auction or to a Broker-Dealer (or other person, if permitted by the Authority); provided, however, that (a) a sale, transfer or other disposition of the Series 2000 Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the owner of such Series 2000 Bonds to that Broker-Dealer or another customer of the Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of the foregoing if such Broker-Dealer remains the Existing Holder of the Series 2000 Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition and (b) in the case of all transfers other than pursuant to Auctions such Broker-Dealer (or other Person if permitted by the Corporation) to whom such transfer is made shall advise the Auction Agent of such transfer.

### **Conversion from Auction Rate Period**

At the option of the Corporation, all, or any portion of the Series 2000 Bonds (in Authorized Denominations) if approved by the Broker-Dealer, may be converted from an Auction Rate Period to a Variable Rate Period, a Commercial Paper Rate Period or a Fixed Rate Period. The Variable Rate Conversion Date, Commercial Paper Rate Conversion Date or Fixed Rate Conversion Date will be the second regularly scheduled Interest Payment Date following the final Auction Date. The Corporation must give written notice of conversion to the Trustee, the Authority, the Auction Agent, the Market Agent, the Broker-Dealer and any Rating Agency which then maintains a rating on the Series 2000 Bonds not less than seven Business Days prior to the date on which the Trustee is required to notify the Bondholders of the conversion as described in the following paragraph. Such notice shall specify the aggregate principal amount of Series 2000 Bonds to be converted, the Variable Rate Conversion Date and the Variable Rate Period to which the conversion will be made (and the length of any Adjustable Long Term Rate Period), Commercial Paper Rate Conversion Date or Fixed Rate Conversion Date, as the case may be; provided, however, no Variable Rate Period or Commercial Paper Rate Period may be designated which extends beyond the Business Day preceding the Stated Termination Date of the Liquidity Facility Agreement, if any. Together with such notice, the Corporation shall file with the Trustee an Opinion of Bond Counsel acceptable to the Trustee (which opinion may be based on a ruling or rulings of the Internal Revenue Service) to the effect that the conversion of Series 2000 Bonds will not adversely affect the validity of the Series 2000 Bonds or any exemption from federal income taxation to which interest on the Series 2000 Bonds would otherwise be entitled. No change to a Variable Rate, Commercial Paper Rate or Fixed Rate shall become effective unless the Corporation also files with the Trustee such an opinion dated the applicable Conversion Date.

Not less than thirty (30) days prior to the Conversion Date, the Trustee will mail a written notice of the conversion to the holders of all Series 2000 Bonds to be converted, specifying the Conversion Date and setting forth the matters required to be stated pursuant to the Indenture with respect to purchases of Series 2000 Bonds.

The Corporation may revoke its election to effect a conversion of the interest rate on any Series 2000 Bonds from an Auction Rate Period by giving Immediate Notice of such revocation to the Trustee, the Authority, the Tender Agent, the Remarketing Agent, the Liquidity Facility Provider, the Auction Agent, the Market Agent and the Broker-Dealer at any time prior to 3:00 P.M., New York time, on the second Business Day prior to the Conversion Date, provided, however, that any such revocation shall not terminate the mandatory tender of such Series 2000 Bonds unless such conversion revocation from the Authority is received by the Trustee prior to mailing of the notice of mandatory tender to the holders of the Series 2000 Bonds.

If on a Proposed Conversion Date from an Auction Rate Period, any condition precedent to such conversion shall not be satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the holders of Series 2000 Bonds bearing interest at an Auction Rate that such conversion has not occurred, that the Series 2000 Bonds shall not be purchased on the failed Conversion Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to the Series 2000 Bonds which otherwise would have been converted, excluding however the Auction Date

falling on the Business Day next preceding the failed Conversion Date, and that the interest rate shall continue to be the Auction Rate; provided, however, that the interest rate borne by the Series 2000 Bonds during the Auction Period commencing on such failed Conversion Date shall be the Maximum Rate.

#### **Mandatory Tenders Following an Auction Rate Period**

The Series 2000 Bonds are subject to mandatory tender for purchase on the effective date (a "Mandatory Tender Date") of a conversion to a different Rate Period at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to but not including the purchase date. The owners of the Series 2000 Bonds may not elect to retain their Series 2000 Bonds in the event of a mandatory tender.

On a Mandatory Tender Date, the owners of the Series 2000 Bonds shall deliver their Series 2000 Bonds (with any necessary endorsements) to the Trustee not later than 2:15 p.m., New York City time. The Series 2000 Bonds purchased which are not delivered by the owners thereof to the Trustee shall nonetheless be deemed to have been delivered by the owners thereof for purchase and to have been purchased. Replacement Series 2000 Bonds in Authorized Denominations may be executed, authenticated and delivered in place of such undelivered Series 2000 Bonds. The Trustee shall pay the purchase price of each tendered Series 2000 Bonds to the owner thereof by 4:00 p.m., New York City time, on the purchase date.

If any owner fails to properly deliver any Series 2000 Bonds on a Mandatory Tender Date, such Series 2000 Bonds shall be deemed to have been properly tendered to the Trustee, to the extent that there shall be on deposit with the Trustee on such Mandatory Tender Date an amount sufficient to pay the principal amount thereof, no interest shall accrue on such Series 2000 Bonds from and after the Mandatory Tender Date, and the owner of such Series 2000 Bonds shall have no rights under the Indenture thereafter as the owner of such Series 2000 Bonds, except the right to receive the purchase price of such Series 2000 Bonds.

Any failure of the Trustee to give notice of a Mandatory Tender Date or cause such notice to be given will not affect the requirement of the owners to tender their Series 2000 Bonds for mandatory purchase.

#### **Series 2000 Bonds Bearing Interest at a Variable Rate or Fixed Rate**

**General.** The Series 2000 Bonds shall initially bear interest at the Auction Rate. All or a portion of the Series 2000 Bonds may be converted to bear interest at a Commercial Paper, Daily, Weekly, Quarterly, Semiannual, Adjustable Long Term Rate or Fixed Rate. **If the Rate Period for any of the Series 2000 Bonds is changed to a different Rate Period, the Corporation will supplement this Official Statement or deliver a new official statement describing the new Rate Period.**

Such Series 2000 Bonds will be payable on each Interest Payment Date as follows: (i) with respect to the a Series 2000 Bond during a Commercial Paper Rate Period, each Repurchase Date; (ii) with respect to a Series 2000 Bond during a Variable Rate Period, (a) when used with respect to a Daily or Weekly Rate Period, the first Business Day of each calendar month occurring during such Variable Rate Period, (b) when used with respect to a Quarterly Rate Period, the first Business Day of the third calendar month following the month in which the Quarterly Rate Period commences and the first Business Day of each third calendar month thereafter, (c) when used with respect to a Semiannual or Adjustable Long Term Rate Period, the first Business Day of the sixth calendar month following the month in which the Semiannual or Adjustable Long Term Period commences and the first Business Day of each sixth month thereafter, and (d) in addition, when used with respect to any Optionally Tendered Bond purchased on an Optional Tender Date pursuant to the Liquidity Facility Agreement, such Optional Tender Date; (iii) with respect to a Series 2000 Bond during a Short Term Auction Rate Period, the Short Term Auction Rate Interest Payment Date; (iv) each Mandatory Tender Date; (v) after any Fixed Rate Conversion Date with respect to a Series 2000 Bond, each May 1 and November 1; (vi) for any Liquidity Facility Provider Bond, the earlier of the next succeeding Interest Payment Date for such Liquidity Facility Provider Bond if such Series 2000 Bond were not a Liquidity Facility Provider Bond and the date such Liquidity Facility Provider Bond is remarketed pursuant to the Remarketing Agreement; (vii) for a Series

2000 Bond bearing interest at a Commercial Paper Rate or Variable Rate, the Liquidity Purchase Date; (viii) with respect to any Series 2000 Bonds subject to mandatory bond sinking fund redemption, such mandatory redemption date; and (ix) the Maturity Date.

Interest during a Commercial Paper Rate Period shall be calculated on the basis of a 365 or 366 day year for the actual number of days elapsed. Interest during a Variable Rate Period shall be calculated on the basis of a 365 or 366 day year, as the case may be, for the actual number of days elapsed, except during a Semiannual or Adjustable Long Term Rate Period interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. From and after a Fixed Rate Conversion Date interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. During a Variable Rate Period or a Commercial Paper Rate Period applicable thereto, a Series 2000 Bond shall bear interest at the lesser of (i) the Maximum Rate or (ii) the Variable Rate or Commercial Paper Rate, as the case may be.

Any Series 2000 Bonds bearing interest at a Commercial Paper, Daily, Weekly or Quarterly Rate will be issued in denominations of \$100,000 and \$5,000 integral multiples in excess thereof. Any Series 2000 Bonds bearing interest at a Semiannual, Adjustable Long Term or Fixed Rate shall be issued in denominations of \$5,000 and integral multiples thereof.

The Record Date with respect to a particular Series 2000 Bond, on or prior to a Fixed Rate Conversion Date applicable thereto, means the Business Day immediately preceding an Interest Payment Date therefore and, subsequent to a Fixed Rate Conversion Date applicable thereto, the 15<sup>th</sup> day (whether or not a Business Day) of the calendar month next preceding an Interest Payment Date therefore; provided, however, that if the Fixed Rate Conversion Date shall occur on or after April 15 but prior to May 1 or on or after October 15 but prior to November 1, the Record Date shall be the Fixed Rate Conversion Date.

**Tender Agent; Remarketing Agent.** The Series 2000 Bonds will be purchased, pursuant to the Indenture, at the principal corporate trust office of the Tender Agent or at an office of an agent therefore designated by the Tender Agent. In the event all or a portion of the Series 2000 Bonds are converted to a Variable Rate, the Corporation will appoint a Remarketing Agent.

**Liquidity Requirements.** If all or a portion of the Series 2000 Bonds are converted to bear interest at a Variable Rate, the Corporation shall obtain a Liquidity Facility with respect to such converted Series 2000 Bonds unless certain conditions are satisfied. See APPENDIX D – Summary of Principal Documents. **The Series 2000 Bonds initially will bear interest at an Auction Rate and no Liquidity Facility will be in effect on the Issue Date.**

#### **Variable Rate Interest Period; Fixed Rate Period.**

**Determination by Remarketing Agent; Notice of Rates Determined.** "Variable Rate" means, with respect to the then effective Variable Rate Period applicable to a Series 2000 Bond (*i.e.*, a Daily Rate Period, Weekly Rate Period, Quarterly Rate Period, Semiannual Rate Period or Adjustable Long Term Rate Period), the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Series 2000 Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Variable Rate Adjustment Date with respect thereto (or, if the Remarketing Agent for any reason fails to determine such rate, the rate determined in accordance with the provisions described below). Except as hereinafter provided, the Variable Rate to be applicable to the Series 2000 Bonds during any Variable Rate Period applicable to such Series 2000 Bonds shall be determined, and notice thereof shall be given, as follows:

- (i) Notice of each Variable Rate shall be: (A) given by Immediate Notice by the Remarketing Agent to the Tender Agent not later than 5:00 p.m., New York City time (or during a Daily Rate Period, not later than 10:00 a.m., New York City time), on the date of determination; (B) given by Immediate Notice not later than 10:00 a.m., New York City time on the date of determination during a Daily Rate Period, and not later than 5:00 p.m., New York City time, on the Business Day immediately



succeeding the date of determination during a Variable Rate Period other than a Daily Rate Period, Semiannual Period or an Adjustable Long Term Rate Period, by the Tender Agent to the Trustee and the Corporation and, during Semiannual and Adjustable Long Term Rate Periods, by first class mail postage prepaid on the third Business Day immediately succeeding the date of determination by the Tender Agent to the holders of the Series 2000 Bonds in a Semiannual or Adjustable Long Term Rate Period; and (C) available commencing on the Business Day immediately succeeding the date of determination during Daily, Weekly and Quarterly Rate Periods by telephone from the Tender Agent upon request of any owner of a Series 2000 Bond in a Daily, Weekly or Quarterly Rate Period.

- (ii) Except as otherwise set forth below with respect to the Weekly Rate Period, if the Remarketing Agent fails for any reason to determine or notify the Tender Agent of the Variable Rate for any Variable Rate Period when required under the Indenture, the Variable Rate for such period shall be the last Variable Rate for such period determined by the Remarketing Agent and communicated to the Tender Agent.

In the event that the Remarketing Agent fails for any reason to determine or notify the Tender Agent of the Variable Rate for any Weekly Rate Period when required under the Indenture, the Variable Rate for such period shall be the same as the Variable Rate determined by the Remarketing Agent and communicated to the Tender Agent for the immediately preceding Weekly Rate Period unless the Variable Rate for the immediately preceding Weekly Rate Period was not determined by the Remarketing Agent, in which event the Variable Rate for such Weekly Rate Period shall be equal to 100% of the BMA Municipal Swap Index or, if, in the reasonable opinion of the Remarketing Agent, or if a Remarketing Agent shall be in default under the Remarketing Agreement, such index is no longer disseminated on a timely basis or is no longer representative of an index based on the Qualified Index Criteria, then such other index designated by the Remarketing Agent or the Trustee, as the case may be, shall be communicated to the Trustee (unless otherwise determining said index), the Tender Agent, the Authority, the Corporation, and the Liquidity Facility Provider on the basis of the Qualified Index Criteria, until such time as the Tender Agent has received notification from the Remarketing Agent of the Variable Rate determined as described below.

**Daily Rates and Weekly Rates.** A Variable Rate shall be determined by the Remarketing Agent for each Daily Rate Period, not later than 9:30 a.m., New York City time, on the first Business Day of the Daily Rate Period to which it relates and for each Weekly Rate Period not later than 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Weekly Rate Period to which it relates.

**Quarterly Rates, Semiannual Rates and Adjustable Long Term Rates.** A Variable Rate shall be determined by the Remarketing Agent for each Quarterly Rate Period, Semiannual Rate Period and Adjustable Long Term Rate Period not later than 12:00 noon, New York City time, on the Business Day immediately preceding the commencement date of such period.

**Conversions between Variable Rate Periods.** At the option of the Corporation, all or any portion of the Series 2000 Bonds may be converted from one Variable Rate Period to another and from an Adjustable Long Term Rate Period of one length to an Adjustable Long Term Rate Period of a different length as follows: In any such case, the Variable Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made; provided, however, that if the conversion is from an Adjustable Long Term Rate Period to a different Variable Rate Period or an Adjustable Long Term Rate Period of a different length, the Variable Rate Conversion Date shall be limited to a regularly scheduled Interest Payment Date on which a new Adjustable Long Term Rate Period would otherwise have commenced. Such conversion is subject to receipt of an Opinion of Bond Counsel that such conversion will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2000 Bonds. Such conversion will result in the mandatory tender of Series 2000 Bonds for purchase as described below under "Mandatory Tender."

**Commercial Paper Rate.** "Commercial Paper Rate" means the lowest annual rate of interest, expressed as a percentage and rounded to the nearest one thousandth of one percent, determined by the Remarketing Agent on a

Commercial Paper Rate Adjustment Date, which would, in the judgment of the Remarketing Agent, enable a particular Series 2000 Bond to be remarketed at the principal amount thereof on such Commercial Paper Rate Adjustment Date given the applicable Interest Period for such Series 2000 Bond (or, if the Remarketing Agent for any reason fails to determine such rate, the rate determined in accordance with the provisions described above). A Commercial Paper Rate for each Interest Period shall be determined as follows: The Interest Periods for Series 2000 Bonds bearing interest at a Commercial Paper Rate shall be of such duration, not exceeding 270 days, as may be determined by the Remarketing Agent; provided, however, no Interest Period shall extend beyond the Business Day preceding the Stated Termination Date of the Liquidity Facility Agreement applicable to such Series 2000 Bonds bearing interest at a Commercial Paper Rate.

**Conversions to Commercial Paper Rate Periods.** At the option of the Corporation, all or any portion of the Series 2000 Bonds may be converted from a Variable Rate Period or a Short Term Auction Rate Period to a Commercial Paper Rate Period as follows: In the case of conversion from a Variable Rate Period, the Commercial Paper Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made; provided, however, that in the case of a conversion from an Adjustable Long Term Rate Period, the Commercial Paper Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which a new Adjustable Long Term Rate Period would otherwise have commenced. In the case of conversion from a Short Term Auction Rate Period, the Variable Rate Conversion Date shall be the second regularly scheduled Interest Payment Date following the final Auction Date. Such conversion is subject to receipt of an Opinion of Bond Counsel that such conversion will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2000 Bonds. Such conversion will result in the mandatory tender of Series 2000 Bonds for purchase as described below under "Mandatory Tender."

**Fixed Rate Conversion at Option of Corporation.** At the option of the Corporation, all or any portion of the Series 2000 Bonds bearing interest at a Variable Rate, Commercial Paper Rates or Short Term Auction Rate may be converted to bear interest at the Fixed Interest Rate as hereinafter provided. The Fixed Rate Conversion Date shall be: (i) in the case of a conversion from a Variable Rate Period other than an Adjustable Long Term Rate Period, a regularly scheduled Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made; (ii) in the case of a conversion from an Adjustable Long Term Rate Period, a regularly scheduled Interest Payment Date on which a new Adjustable Long Term Rate Period would otherwise have commenced; (iii) in the case of a conversion from a Commercial Paper Rate Period, a day which is the last regularly scheduled Interest Payment Date on which interest is payable for any Interest Period theretofore established for the Series 2000 Bonds to be converted; or (iv) in the case of a conversion from a Short Term Auction Rate Period, the second regularly scheduled Interest Payment Date following the final Auction Date. Such conversion is subject to receipt of an Opinion of Bond Counsel that such conversion will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2000 Bonds. Such conversion will result in the mandatory tender of Series 2000 Bonds for purchase as described below under "Mandatory Tender."

**Fixed Interest Rate.** "Fixed Interest Rate" means the rate to be borne by a Series 2000 Bond from and after the Fixed Rate Conversion Date applicable thereto, which shall be the lowest rate which, in the judgment of the Remarketing Agent, is necessary to enable such Series 2000 Bond to be remarketed at the principal amount thereof, plus accrued interest, if any, on the Fixed Rate Conversion Date. Not later than 12:00 noon, New York City time, on the Business Day prior to a Fixed Rate Conversion Date, the Remarketing Agent shall determine a Fixed Interest Rate for the Series 2000 Bonds so converted.

**BMA Municipal Swap Index Applicable in Certain Circumstances.** The Series 2000 Bonds shall bear interest at a rate equal to 100% of the BMA Municipal Swap Index or, if, in the reasonable opinion of the Remarketing Agent or if the Remarketing Agent shall be in default under the Remarketing Agreement, the Trustee, or if such index is no longer disseminated on a timely basis or is no longer representative of an index based on the Qualified Index Criteria, then such other index designated by the Remarketing Agent or the Trustee, as the case may be, if funds are insufficient for purchases of Series 2000 Bonds. See "Inadequate Funds for Tenders." Provided, however, that in no event may the interest rate borne by the Series 2000 Bonds exceed the Maximum Rate.

**Failed Conversion.** If on a Variable Rate Conversion Date, Commercial Paper Rate Conversion Date or Proposed Fixed Rate Conversion Date, other than any such conversion from a Short Term Auction Rate Period, or on a Short Term Auction Rate Conversion Date, any condition precedent to such conversion shall not be satisfied, such conversion shall not occur, the mandatory tender shall remain effective and (i) if the Corporation has filed with the Authority, the Trustee and the Tender Agent an Opinion of Bond Counsel acceptable to the Trustee to the effect that the conversion of the Series 2000 Bonds to a Variable Rate for Weekly Rate Periods will not adversely affect the validity of the Series 2000 Bonds or any exemption from federal income taxation to which interest on the Series 2000 Bonds would otherwise be entitled, the Series 2000 Bonds shall bear interest at the Variable Rate determined by the Remarketing Agent on the failed Conversion Date for a Weekly Rate Period, and thereafter shall bear interest at Variable Rates for Weekly Rate Periods until a Variable Rate Conversion Date, Commercial Paper Rate Conversion Date, Short Term Auction Rate Conversion Date or Fixed Rate Conversion Date or (ii) if the Opinion of Bond Counsel referred to in clause (i) above has not been delivered, the Series 2000 Bonds shall bear interest at the Variable Rate or Commercial Paper Rates determined by the Remarketing Agent on the failed Conversion Date for a Variable Rate Period or Interest Periods, as the case may be, of the same length as the immediately preceding Variable Rate Period or Interest Periods (unless such period would extend beyond the Stated Termination Date or the Maturity Date of the Series 2000 Bonds, in which case the Variable Rate Period or Interest Period shall end on the fifth Business Day prior to the Stated Termination Date or on the Maturity Date, as the case may be).

#### **Optional Tenders of Series 2000 Bonds Bearing Interest at a Variable Rate**

The holders of Series 2000 Bonds bearing interest at Variable Rates may elect to have their Series 2000 Bonds or portions thereof in whole multiples of Authorized Denominations purchased at the Tender Price of such Series 2000 Bonds (or portions), on the following Optional Tender Dates and upon the giving of the following oral or written notices meeting the further requirements described below:

- (i) during a Daily Rate Period Bonds may be tendered for purchase on any Business Day upon telephonic or written notice of tender given to the Tender Agent not later than 11:00 a.m., New York City time, on the Optional Tender Date;
- (ii) during a Weekly Rate Period Bonds may be tendered for purchase on any Business Day upon telephonic (promptly confirmed by telecopy) or written notice of tender to the Tender Agent not later than 5:00 p.m., New York City time, on a Business Day not less than seven (7) days prior to the Optional Tender Date; and
- (iii) during a Quarterly, Semiannual or Adjustable Long Term Rate Period Bonds may be tendered for purchase on the first Business Day following such Variable Rate Period upon delivery of a written notice of tender to the Tender Agent not later than 5:00 p.m., New York City time, on a Business Day not less than seven (7) days prior to the Optional Tender Date.

Each notice of tender ("Optional Tender Notice") referred to above, whether written or oral, must state the following: (1) the name and address of the holder and the principal amount of the Series 2000 Bonds to which the notice relates, (2) that the holder irrevocably demands purchase of the Series 2000 Bonds specified in such Optional Tender Notice or a specified portion thereof in a whole multiple of an Authorized Denomination, (3) the Optional Tender Date on which such Series 2000 Bonds or portion are to be purchased and (4) the payment instructions with respect to the Tender Price. In the case of a written notice, such notice must be delivered to the Tender Agent at its principal corporate trust office and must be in a form satisfactory to the Tender Agent. The determination of the Tender Agent as to whether an Optional Tender Notice has been properly delivered is conclusive and binding upon the owner of the Series 2000 Bond delivering such notice. Delivery of an Optional Tender Notice, whether delivered by telephone or in writing, to the Tender Agent automatically constitutes (1) an irrevocable offer to sell the Series 2000 Bond (or portion thereof) to which the notice relates on the Optional Tender Date at the Tender Price, (2) an irrevocable authorization and instruction to the Tender Agent to effect a transfer of such Series 2000 Bonds (or portion thereof) upon payment of the Tender Price to the Tender Agent on the Optional Tender Date, (3) an irrevocable authorization and instruction to the

Tender Agent to effect the exchange of the Series 2000 Bonds to be purchased in whole or in part for other Series 2000 Bonds in an equal aggregate principal amount so as to facilitate the sale of such Series 2000 Bonds (or portion thereof to be purchased), and (4) an acknowledgment that such holder will have no further rights with respect to such Series 2000 Bonds (or portion thereof) upon payment of the Tender Price thereof to the Tender Agent on the Optional Tender Date, except for the right of such holder to receive such Tender Price upon surrender of such Series 2000 Bond to the Tender Agent.

### **Mandatory Tenders**

The Series 2000 Bonds are subject to mandatory tender for purchase in whole or in part, at the Tender Price therefor on the following dates (the "Mandatory Tender Dates"):

- (i) any proposed Fixed Rate Conversion Date;
- (ii) any proposed Variable Rate Conversion Date;
- (iii) any proposed Commercial Paper Rate Conversion Date;
- (iv) any proposed Auction Rate Conversion Date;
- (v) the Business Day preceding the Stated Termination Date of the Liquidity Facility or the date the Liquidity Facility is canceled at the request of the Corporation if no Substitute Liquidity Facility has been delivered;
- (vi) the Business Day preceding the effective date of any Substitute Liquidity Facility or the cancellation of a Liquidity Facility in circumstances in which the Corporation is no longer required to maintain a Liquidity Facility for the Series 2000 Bonds; and
- (vii) the Liquidity Purchase Date preceding the termination of the Liquidity Facility Provider's obligation to purchase Series 2000 Bonds under the Liquidity Facility after receipt by the Trustee and the Tender Agent of notice from the Liquidity Facility Provider of the occurrence of a Non-Immediate Termination Event under the Initial Liquidity Facility (or under a Substitute Liquidity Facility).

The Tender Agent will mail notice to holders of affected Series 2000 Bonds not less than 25 days prior to the purchase date in the event of a mandatory tender pursuant to clause (i) of the immediately preceding paragraph (provided that any notice of mandatory tender in such case may be included in the notice of conversion to a Fixed Rate Period), not less than 20 days prior to the purchase date in the event of a mandatory tender pursuant to clauses (v) and (vi) of the immediately preceding paragraph and not less than 14 days prior to the purchase date in the event of a mandatory tender pursuant to clause (vii) of the immediately preceding paragraph. Notice of mandatory tenders pursuant to clause (ii), (iii) or (iv) of the immediately preceding paragraph will be contained in the notice of conversion of the applicable interest rate.

### **Inadequate Funds for Tenders**

If the funds available for purchases of Series 2000 Bonds or any portion thereof pursuant to the Indenture are inadequate for the purchase of all Series 2000 Bonds tendered or required to be tendered for purchase on any date, no Series 2000 Bonds will be purchased and all Series 2000 Bonds or portion thereof which were tendered for purchase will bear interest from such date until paid in full at the greater of (i) 100% of The Bond Market Association Municipal Swap Index™, as disseminated by Municipal Market Data, a Thomson Financial Services Company or its successor (the "BMA Municipal Swap Index"), or, if, in the reasonable opinion of the Managing Remarketing Agent, or if a Remarketing Agent is in default under a Remarketing Agreement, the Trustee, such index is no longer disseminated on a timely basis or is no longer representative of an index based on certain requirements of the Indenture, then such other

index designated by the Managing Remarketing Agent or the Trustee, as the case may be, to the Trustee (unless otherwise determining said index), the Authority, the Corporation and the Liquidity Facility Provider on the basis of the Qualified Index Criteria (as defined below) and (ii) the Federal Funds Rate (as defined in the Indenture) plus one percent. "Qualified Index Criteria" means yield evaluations at par of notes or bonds of not less than five "high grade" component issuers, which notes or bonds are rated in the highest short-term rating category by Moody's and Fitch and are subject to tender upon seven days' notice, and the interest on which is excludable from income for federal income tax purposes. In the event that the provisions of the Indenture described under this paragraph become applicable, (i) the Tender Agent will immediately: (A) return all tendered Series 2000 Bonds to the holders thereof; (B) return all moneys received for the purchase of such Series 2000 Bonds to the persons providing such moneys; and (C) notify all Bondholders of the Series 2000 Bonds in writing that an Event of Default under the Indenture and the Loan Agreement, has occurred and of the interest rate to be effective pursuant to the first sentence of this paragraph and (ii) the Trustee will request the Master Trustee to accelerate the payments due under the Obligations in accordance with the Master Trust Indenture and will direct the Master Trustee to exercise its rights under the Master Trust Indenture in connection with such acceleration. The obligation of the Corporation to deposit funds in sufficient amounts to purchase all Series 2000 Bonds will remain enforceable pursuant to the terms of the Indenture and only be discharged at such time as funds are deposited with the Tender Agent in an amount sufficient to purchase all Series 2000 Bonds that were required to be purchased on the prior Optional Tender Date or Mandatory Tender Date, as the case may be, together with any interest which has accrued to such subsequent purchase date.

## **SUMMARY OF INTEREST PERIODS**

	<b>Short Term Auction Rate Period Equal to Seven Days</b>	<b><u>Daily Rate Period</u></b>	<b><u>Weekly Rate Period</u></b>	<b><u>Quarterly Rate Period</u></b>
Interest Payment Date	Wednesday of each week	First Business Day of each calendar month	First Business Day of each calendar month	First Business Day of third calendar month following the month in which the Quarterly Rate Period commences and the first Business Day of each third calendar month thereafter
Record Date	The Business Day immediately preceding an Interest Payment Date	The Business Day immediately preceding an Interest Payment Date	The Business Day immediately preceding an Interest Payment Date	The Business Day immediately preceding an Interest Payment Date
Rate Determination Date	Notification of Auction Rate by 3:00 p.m., New York City time, on each Auction Date	Determined by 9:30 a.m., New York City time, on the first Business Day of the Daily Rate Period	Determined by 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement day of the Weekly Rate Period	Determined by 12:00 noon, New York City time, on the Business Day immediately preceding the commencement date of the Quarterly Rate Period
Date On Which Rate Becomes Effective	The Business Day after the Auction Date	Each Business Day	Each Wednesday	First Business Day of a calendar month of the Quarterly Rate Period; provided if Quarterly Rate Period immediately succeeds a Short Term Auction Rate Period, then the Variable Rate Conversion Date
Notice Period for Optional Tenders	None	Telephonic or written notice to Tender Agent not later than 11:00 a.m. New York City time on the Optional Tender Date	Telephonic (promptly confirmed in writing) or written notice to Tender Agent not later than 5:00 p.m. New York City time on a Business Day not less than 7 days prior to the Optional Tender Date	Written notice to Tender Agent not later than 5:00 p.m. New York City time on a Business Day not less than 7 days prior to the Optional Tender Date

## **SUMMARY OF INTEREST PERIODS (continued)**

	<b><u>Semiannual Rate Period</u></b>	<b><u>Adjustable Long Term Rate Period</u></b>	<b><u>Commercial Paper Rate Period</u></b>	<b><u>Fixed Rate Period</u></b>
Interest Payment Date	First Business Day of the sixth calendar month following the month in which the Semiannual Rate Period commences and the first Business Day of each sixth month thereafter	First Business Day of the sixth calendar month following the month in which the Adjustable Long Term Rate Period commences and the first Business Day of each sixth month thereafter	Each Repurchase Date	Each May 1 and November 1
Record Date	The Business Day immediately preceding an Interest Payment Date	The Business Day immediately preceding an Interest Payment Date	The Business Day immediately preceding an Interest Payment Date	The fifteenth day (whether or not a Business Day) of the calendar month next preceding an Interest Payment Date
Rate Determination Date	Determined by 12:00 noon New York City time, on the Business Day immediately preceding the commencement date of the Semiannual Rate Period	Determined by 12:00 noon New York City time, on the Business Day immediately preceding the commencement date of the Adjustable Long Term Rate Period	Determined by 1:00 p.m., New York City time, on the Repurchase Date	Determined by 12:00 noon, New York City time, on the Business Day prior to a Fixed Rate Conversion Date
Date On Which Rate Becomes Effective	First Business Day of the calendar month commencing the Semiannual Rate Period, provided, if the Semiannual Rate Period immediately succeeds a Short Term Auction Rate Period, then the Variable Rate Conversion Date	First Business Day of the calendar month commencing the Adjustable Long Term Rate Period, provided, if the Adjustable Long Term Rate Period immediately succeeds a Short Term Auction Rate Period, then the Variable Rate Conversion Date	First Business Day of Commercial Paper Rate Period, which period may not exceed the shortest of (A) 270 days, (B) the number of days prior to any Mandatory Tender Date, or (C) the number of days prior to each date on which Bonds are subject to redemption	Fixed Rate Conversion Date
Notice Period for Optional Tenders	Written notice to Tender Agent not later than 5:00 p.m. New York City time on a Business Day not less than 7 days prior to the Optional Tender Date	Written notice to Tender Agent not later than 5:00 p.m. New York City time on a Business Day not less than 7 days prior to the Optional Tender Date	None	None

## Redemption of the Series 2000 Bonds

**Optional Redemption.** The Series 2000 Bonds are callable for redemption prior to maturity in the event (i) of damage to or destruction of any facilities of the Corporation or condemnation or sale consummated under threat of condemnation of any facilities of the Corporation, provided that the net proceeds of insurance or condemnation award or sale received in connection therewith exceed \$5,000,000; (ii) if the Corporation, by reason of its having benefitted from the issuance of the Series 2000 Bonds, is, in the Opinion of Counsel for the Corporation, required or ordered by final legislative, judicial or administrative, action of the United States of America or any state, or any agency, department or subdivision thereof, to perform any abortion, sterilization or other similar medical or surgical operations or procedures not in compliance with the Ethical and Religious Directives for Catholic Health Care Facilities as promulgated by the National Conference of Catholic Bishops ("Directives") and canon laws related thereto, at any time at any health facility property owned or operated by the Corporation; or (iii) the Corporation shall exercise its option to prepay amounts under the Loan Agreement or on the Series 2000 Obligations pledged under the Indenture in an amount sufficient to redeem all or a portion of the Series 2000 Bonds then outstanding. If called for redemption in the events referred to in (i) or (ii) above, such Series 2000 Bonds shall be subject to redemption by the Authority upon direction of the Corporation at any time, except if any Series 2000 Bonds are in a Short Term Auction Rate Period, then on any Interest Payment Date, in whole or in part, and if in part in Authorized Denominations selected by lot, in such manner as may be designated by the Trustee, at the principal amount thereof plus accrued interest to the redemption date and without premium; provided, however, that in no event shall the principal amount of Series 2000 Bonds so redeemed exceed the amount of such net proceeds. If called for redemption in the event referred to in (iii) above, such Series 2000 Bonds shall be subject to redemption, in whole or in part, at the times and in the manner and with the same premium set forth below as if such Series 2000 Bonds were being redeemed at the option of the Authority.

No redemption of less than all of the Series 2000 Bonds at the time outstanding shall be made pursuant to the Indenture unless the aggregate principal amount of Series 2000 Bonds to be redeemed is not less than an Authorized Denomination.

Series 2000 Bonds may be called for redemption by the Trustee as described in (i) and (ii) of the first paragraph of this section upon (i) receipt by the Trustee of a Corporation Request requesting such redemption at least 40 days prior to the redemption date and (ii) compliance with the notice requirements of the Indenture. Such Corporation Request shall specify the principal amount of the Series 2000 Bonds so to be called for redemption and the provision or provisions above specified pursuant to which such Series 2000 Bonds are to be called for redemption.

Series 2000 Bonds are subject to redemption by the Authority upon the direction of the Corporation pursuant to (iii) described in the first paragraph of this section as follows:

(i) Series 2000 Bonds in a Commercial Paper Rate Period, a Short Term Auction Rate Period or a Variable Rate Period other than an Adjustable Long Term Rate Period may be redeemed by the Authority upon direction of the Corporation, in whole or in part from time to time, and, in the case of any particular Series 2000 Bond, on any Repurchase Date applicable thereto during a Commercial Paper Rate Period, on any Business Day during a Variable Rate Period (other than an Adjustable Long Term Rate Period) or on any Interest Payment Date during a Short Term Auction Rate Period, at the principal amount of the Series 2000 Bonds to be redeemed plus accrued interest to the redemption date and without premium.

(ii) Series 2000 Bonds in an Adjustable Long Term Rate Period may be redeemed by the Authority upon direction of the Corporation, in whole or in part from time to time on any Interest Payment Date after the No-Call Period described below, at the following redemption prices (expressed as percentages of the principal amount of Series 2000 Bonds called for redemption), plus accrued interest to the date fixed for redemption:



<u>LENGTH OF ADJUSTABLE LONG TERM RATE PERIOD</u>	<u>NO-CALL PERIOD*</u>	<u>REDEMPTION PRICES</u>
Greater than 10 years	10 years	102%, declining 1% per year to 100%
Less than or equal to 10 years and greater than 5 years	5 years	102%, declining 1% per year to 100%
Less than or equal to 5 years	length of term	100%

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\*Measured from the Variable Rate Conversion Date applicable to such Adjustable Long Term Rate Period.

Notwithstanding the foregoing, the No-Call Periods and redemption prices specified above may be changed by the Remarketing Agent upon the written request of the Corporation if the Opinion of Bond Counsel required to be delivered in connection with the conversion of the Series 2000 Bonds to an Adjustable Long Term Rate Period is to the effect that such change will not have an adverse effect on the validity of the Series 2000 Bonds or any exemption from federal income taxation to which interest on the Series 2000 Bonds would otherwise be entitled.

(iii) Series 2000 Bonds bearing interest at a Fixed Interest Rate shall be redeemed after the No-Call Period described below as a whole or in part on any date at the following redemption prices (expressed as percentages of the principal amount of Series 2000 Bonds called for redemption), plus accrued interest to the date fixed for redemption:

<u>REMAINING TERM TO MATURITY</u>	<u>NO-CALL PERIOD*</u>	<u>REDEMPTION PRICES</u>
Greater than 10 years	10 years	102%, declining 1% per year to 100%
Less than or equal to 10 years and greater than 5 years	5 years	102%, declining 1% per year to 100%
Less than or equal to 5 years	remaining term	not applicable

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\*Measured from the Fixed Rate Conversion Date applicable to the Series 2000 Bonds being converted.

Notwithstanding the foregoing, the No-Call Periods and redemption prices specified above may be changed by the Remarketing Agent upon the written request of the Corporation if the Opinion of Bond Counsel required to be delivered in connection with the conversion of the interest rate on the Series 2000 Bonds to a Fixed Interest Rate is to the effect that such change will not have an adverse effect on the validity of the Series 2000 Bonds or any exemption from federal income taxation to which interest on the Series 2000 Bonds would otherwise be entitled.

In the event of any partial redemption of the Series 2000 Bonds which have not been assigned to a particular bond sinking fund redemption date, the mandatory bond sinking fund redemption payments shall be reduced in such order as the Corporation shall elect prior to such redemption or, if no such election is made, in the inverse order thereof. Following such redemption, the Trustee shall (in such manner as it in its sole discretion shall choose) adjust the amount of each such reduction in required bond sinking fund redemption payment, so that each such required bond sinking fund redemption payment is made in Authorized Denominations.

Any Series 2000 Bonds which are Liquidity Facility Provider Series 2000 Bonds shall be subject to redemption in whole or in part (in an Authorized Denomination) prior to maturity at the option of the Corporation on any Business Day while such Series 2000 Bonds are Liquidity Facility Provider Series 2000 Bonds at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date. **The Series 2000 Bonds will initially bear interest at an Auction Rate and no Liquidity Facility will be in effect on the Issue Date.**

Any Series 2000 Bonds which are Liquidity Facility Provider Series 2000 Bonds shall be subject to special mandatory redemption commencing on the earlier of (a) the Stated Termination Date or (b) the first day of the ninth calendar month (the "First Date") following the month such Series 2000 Bonds become Liquidity Facility Provider Series 2000 Bonds (the "Measurement Month") and on the first day of the month three months from the First Date and on the first day of the month for each three-month period thereafter at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date. On each such special mandatory redemption date, the Series 2000 Bonds which are Liquidity Facility Provider Series 2000 Bonds shall be redeemed in a principal amount set forth in the Initial Liquidity Facility Agreement or as otherwise agreed to by the Corporation and any other Liquidity Facility Provider and consented to by the Authority or a duly authorized officer of the Authority.

**Mandatory Sinking Fund Redemption.** With respect to the payment of Series 2000 Bonds at maturity or by mandatory bond sinking fund redemption, the Trustee shall withdraw from the sinking fund (a) with respect to Series 2000 Bonds prior to the Fixed Rate Conversion Date and not during a Short Term Auction Rate Period, on the first Business Day occurring on or after November 1, 2001, and on the first Business Day occurring on or after each November 1 thereafter, to and including November 1, 2030, (b) with respect to Bonds during a Short Term Auction Rate Period, on the first Interest Payment Date in November, 2001, and on the first Interest Payment Date of each November thereafter to and including November, 2030, or (c) with respect to Series 2000 Bonds subsequent to the Fixed Rate Conversion Date, on November 1, 2001 and on November 1 of each year thereafter, to and including November 1, 2030, moneys in the amount and at the times, respectively, as follows:

**Indiana Bonds**

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2001	1,550,000	2016	3,325,000
2002	1,650,000	2017	3,475,000
2003	1,725,000	2018	3,625,000
2004	1,800,000	2019	3,800,000
2005	1,925,000	2020	3,950,000
2006	2,000,000	2021	4,200,000
2007	2,150,000	2022	4,375,000
2008	2,250,000	2023	4,650,000
2009	2,300,000	2024	4,875,000
2010	2,450,000	2025	5,125,000
2011	2,550,000	2026	5,325,000
2012	2,725,000	2027	5,600,000
2013	2,850,000	2028	5,900,000
2014	2,975,000	2029	6,200,000
2015	3,150,000	2030	6,525,000

## Illinois Bonds

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2001	600,000	2016	1,250,000
2002	650,000	2017	1,300,000
2003	675,000	2018	1,375,000
2004	700,000	2019	1,450,000
2005	725,000	2020	1,525,000
2006	775,000	2021	1,600,000
2007	800,000	2022	1,675,000
2008	850,000	2023	1,750,000
2009	900,000	2024	1,850,000
2010	925,000	2025	1,950,000
2011	1,000,000	2026	2,050,000
2012	1,025,000	2027	2,150,000
2013	1,075,000	2028	2,225,000
2014	1,150,000	2029	2,350,000
2015	1,175,000	2030	2,475,000

**Selection of the Series 2000 Bonds to be Redeemed.** The Series 2000 Bonds may be redeemed only in Authorized Denominations. The Series 2000 Bonds to be redeemed in part shall be selected by lot in such manner as may be designated by the Trustee.

**Notice of Redemption.** Notice of the call for redemption of the Series 2000 Bonds shall identify the Series 2000 Bonds to be redeemed, specify the redemption date, the redemption price and the place and manner of payment and shall state that, from and after the redemption date, interest on the Series 2000 Bonds to be redeemed shall cease to accrue. During an Auction Rate Period, the redemption notice is required to be given by mailing a copy of such notice by first class mail, postage prepaid not less than 30 days prior to the redemption date. Failure to give such notice or any defect in the notice or the mailing as to any of the Series 2000 Bonds shall not affect the validity of any proceedings for the redemption of any of the other Series 2000 Bonds with respect to which notice was properly given.

**As long as the book-entry system is in effect with respect to the Series 2000 Bonds, any redemption notice shall be given to DTC, as Holder of the Series 2000 Bonds.** Failure to give notice to any Bondholder, or any defect therein, shall not affect the validity of the redemption of any other Series 2000 Bonds.

## **BOOK-ENTRY SYSTEM**

### **General**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2000 Bonds. The Series 2000 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of each series of the Series 2000 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants

of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and collectively with Direct Participants, "Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2000 Bonds under the DTC system must be made by or through Direct Participants which will receive a credit for the Series 2000 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2000 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Series 2000 Bonds is discontinued.

All tenders (optional or mandatory) of Series 2000 Bonds and delivery of and payment for such tendered bonds will be effected through the DTC system by or through the Beneficial Owner's Direct or Indirect Participant.

So long as Cede & Co., as nominee of DTC (or any other nominee of DTC), is the registered owner of the Series 2000 Bonds, all references herein to the Series 2000 Bondholders or registered owners or holders of the Series 2000 Bonds shall mean Cede & Co., as such nominee, and shall not mean the Beneficial Owners of the Series 2000 Bonds. To facilitate subsequent transfers, all Series 2000 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the Series 2000 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2000 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of a series of the Series 2000 Bonds and, where applicable, of a particular maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2000 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2000 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, tender price, premium and interest payments on each series of Series 2000 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings as shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Corporation or the Authority subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, tender price, premium and interest to DTC is the responsibility of the Trustee, disbursements of such payments to Direct Participants will be

the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

**None of the Indiana Authority, the Illinois Authority, the Corporation, or the Trustee has any responsibility or obligation to any DTC Participant or any Beneficial Owner with respect to: (1) the accuracy of any records maintained by DTC or any Participant; (2) the payment by DTC or any Participant of any amount due to any Beneficial Owner in respect of the principal or tender price of, or any premium or interest on the Series 2000 Bonds; (3) the delivery by DTC or any Participant to any Beneficial Owner of any notice (including a notice of redemption) or other communication which is required or permitted to be given to Bondholders under the Indenture; (4) the selection of the Beneficial Owners to receive payment in the event of a partial redemption of a series of the Series 2000 Bonds; or (5) any consent given or other action taken by DTC as Bondholder.**

DTC may discontinue providing its services as securities depository with respect to any series of the Series 2000 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not selected as provided in the Indenture, certificates for the related Series 2000 Bonds are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and none of the Indiana Authority, the Illinois Authority, the Corporation, the Trustee or the Underwriter takes any responsibility for the accuracy thereof.

#### **Registration, Transfer and Exchange Provisions if Book-Entry System is Discontinued**

**The Beneficial Owners of the Series 2000 Bonds have no right to a Securities Depository for the Series 2000 Bonds.** The following describes the provisions for registration, transfer and exchange of the Series 2000 Bonds if the book-entry system is discontinued.

The Trustee will maintain the Bond Register in which the registration of the related Series 2000 Bonds and the registration of transfers and exchanges of the related Series 2000 Bonds entitled to be transferred or exchanged will be recorded. The person in whose name a Series 2000 Bond is registered in the applicable Bond Register will be deemed the absolute owner thereof for all purposes.

Any registered owner of a Series 2000 Bond or its duly authorized attorney may transfer title to such registered owner's Bond in the applicable Bond Register upon surrender thereof at the corporate trust office of the Trustee, together with a written instrument of transfer (in substantially the form of assignment printed on the Series 2000 Bond or in such other form as shall be satisfactory to the Trustee) executed by the registered owner or its duly authorized attorney. The Series 2000 Bonds may be exchanged at the corporate trust office of the Trustee for a new Bond or Bonds of the same series, maturity and aggregate principal amount, but in different authorized denominations, as the Series 2000 Bonds being exchanged, upon surrender thereof at the corporate trust office of the Trustee. Upon surrender for transfer or exchange of any Series 2000 Bond, the Authority shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees or the registered owner thereof, as applicable, a new Bond or Bonds of the same series, maturity and aggregate principal amount as the Series 2000 Bond surrendered.

The Trustee may charge each holder of a Series 2000 Bond requesting a transfer or exchange any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange. The Trustee is not required to transfer or exchange any Series 2000 Bonds after notice of redemption of such Bond or portion thereof has been given as herein described.

### **SECURITY FOR THE SERIES 2000 BONDS**

#### **General**

The Series 2000 Bonds are special, limited obligations of the Authority, payable solely from the Revenues pledged under the Indenture for such payment. Revenues consist primarily of payments required to be made by the Corporation pursuant to the Loan Agreement in amounts sufficient to pay the principal of and premium, if any, and

interest on the Series 2000 Bonds when such become due. The Authority will assign its right, title and interest in the Loan Agreement (except for any deposits to the Rebate Fund, the right to receive any administrative fees and expenses to the extent payable to the Authority and the right of the Authority to be indemnified pursuant thereto) and the 2000 Obligations, as described below, to the Trustee. The obligation of the Corporation to make payments under the Loan Agreement is evidenced by and secured by Master Note Obligations, Series 2000, issued by the Corporation to the Authority and assigned to the Trustee pursuant to the Master Indenture ("2000 Obligations").

**The Series 2000 Bonds are secured solely by the Indenture and are payable solely from payments under the Loan Agreement and 2000 Obligations.**

**Under certain circumstances, the Master Indenture may be amended or replaced without the consent of the owners of the Series 2000 Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Amendments and Supplements" in Appendix D to this Official Statement.**

**In addition, under certain circumstances, the Master Indenture may be amended or replaced, and/or the 2000 Obligations may be exchanged for a note of another obligated group, without notice to or consent of the Series 2000 Bondholders. See "SECURITY FOR THE SERIES 2000 BONDS - The Master Indenture" below and "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Substitution of Obligations" in Appendix D herein for a discussion of the circumstances under which the 2000 Obligations may be exchanged.**

THE INDIANA BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE INDIANA AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE INDIANA INDENTURE. THE INDIANA BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF, AND THE INDIANA BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE INDIANA AUTHORITY OR THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR INTEREST THEREON. THE INDIANA AUTHORITY HAS NO TAXING POWER.

THE ILLINOIS BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE ILLINOIS AUTHORITY. THE ILLINOIS BONDS AND THE INTEREST THEREON WILL NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION, GENERAL OR MORAL, OR A PLEDGE OF THE FAITH AND CREDIT OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE PURVIEW OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR PROVISION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER, IF ANY, OF ANY OF THEM. NO OWNER OF THE ILLINOIS BONDS WILL HAVE ANY RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER, IF ANY, OF ANY OF THEM. NO OWNER OF THE ILLINOIS BONDS WILL HAVE ANY RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWER, IF ANY, OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS, OR ANY POLITICAL SUBDIVISION OF THE STATE OF ILLINOIS TO PAY THE PRINCIPAL OF THE ILLINOIS BONDS, OR THE INTEREST OR PREMIUM, IF ANY, THEREON. PAYMENT OF THE ILLINOIS BONDS, INCLUDING THE PRINCIPAL THEREOF, REDEMPTION PREMIUM, IF ANY, AND THE INTEREST THEREON, WILL BE MADE SOLELY FROM THE FUNDS AND OBLIGATIONS DULY PLEDGED THEREFOR AS DESCRIBED IN THIS OFFICIAL STATEMENT. THERE WILL BE NO PLEDGE OF ANY OF THE CREDIT OR THE TAXING POWER, IF ANY, OF THE ILLINOIS AUTHORITY, THE STATE OF ILLINOIS, OR ANY POLITICAL SUBDIVISION OF THE STATE OF ILLINOIS, TO THE OBLIGATIONS OF THE ILLINOIS BONDS AND NO OWNER OF ANY OF THE ILLINOIS BONDS CAN EVER SUBMIT A CLAIM AGAINST ANY SUCH CREDIT OR TAXING POWER. THE ILLINOIS AUTHORITY HAS NO TAXING POWER.

## The Master Indenture

**Obligations.** Under the Master Indenture, the Corporation or any future Member of the Obligated Group (with the approval of the Corporation) is authorized to incur pursuant to a supplement to the Master Indenture, for itself and on behalf of the other Members of the Obligated Group, Obligations to evidence or secure Indebtedness (or other obligations of a Member not constituting Indebtedness). As of the date of issuance and delivery of the Series 2000 Bonds, the Corporation will be the only Member of the Obligated Group, and as such will be solely liable for payment of the Obligations issued under the Master Indenture. **Certain affiliates of the Corporation have been designated by the Corporation pursuant to the terms of the Master Indenture as "Designated Group Affiliates" under the Master Indenture. The Designated Group Affiliates are not Members of the Obligated Group and are not liable for payment of the Obligations. See "THE CORPORATION AND THE DESIGNATED GROUP AFFILIATES" herein and Appendix A for a description of the Corporation and the Designated Group Affiliates.** The Corporation and any future Members of the Obligated Group will be jointly and severally liable with respect to the payment of each Obligation incurred under the Master Indenture. The Corporation will issue its Master Note Obligation, Series 2000 A and its Master Note Obligation Series 2000 B (the "2000 Obligations") as security for the Series 2000 Bonds. The 2000 Obligations are being issued by the Corporation, under and pursuant to the Master Indenture on a parity and will be on a parity with the Prior Obligations and future Obligations to be issued and outstanding under the Master Indenture. All Members of the Obligated Group are required to make payments on the 2000 Obligations in amounts sufficient to pay when due the principal of and premium, if any, and interest on the Series 2000 Bonds. For a more detailed discussion of entry to or withdrawal from the Obligated Group, see Appendix D "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE -- Entrance into the Obligated Group -- and -- Cessation of Status as a Member of The Obligated Group." All capitalized terms used and not defined in this section have the meanings listed in Appendix D "DEFINITIONS OF CERTAIN TERMS".

The Master Indenture contains provisions permitting the Master Indenture to be amended or replaced and/or the Trustee to surrender the 2000 Obligations in exchange for other obligations under certain circumstances. This could, under certain circumstances lead to the substitution of different security in the form of notes issued by a new obligated group that is financially and operationally different than the current Members of the Obligated Group. That new obligated group could have substantial debts outstanding that would rank on a parity with the substitute note, and the financial and operating covenants related to the substitute notes could be materially different than those contained in the Master Indenture. The Obligated Group may request a substitution without Bondholder consent, as described more fully in Appendix D under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE — Substitution of Obligations."

The Master Indenture includes covenants which require the Corporation (as the sole Member of the Obligated Group) to maintain a minimum debt service coverage ratio and limit the Corporation's ability to encumber certain of its assets. **In determining whether the Corporation has satisfied such covenants, the Master Indenture requires the Corporation to include the Corporation and the Designated Group Affiliates together in calculating the related ratios and in testing for compliance even though the Designated Group Affiliates are not obligated on the Obligations.** The Master Indenture requires that each Designated Group Affiliate be controlled by a Member of the Obligated Group (through corporate control or pursuant to contract), so as to assure compliance by the Designated Group Affiliates with the covenants contained in the Master Indenture. Management of the Corporation believes that the corporate structure and the contractual relationship of the Corporation and the Designated Group Affiliates allows the Corporation to exercise the necessary control over its Designated Group Affiliates (including the ability of the Corporation to cause the Designated Group Affiliates to transfer funds to the Corporation to make payments on Obligations) to ensure compliance with the Master Indenture covenants. At the time the Series 2000 Bonds are issued, the Corporation will exercise the control over the Designated Group Affiliates required under the Master Indenture through provisions of the bylaws of such Designated Group Affiliates. CHM has executed a participation agreement ("Participation Agreement") with the Corporation which forms the basis for such organization becoming a Designated Group Affiliate. In the future, the Corporation may permit other entities to become Designated Group Affiliates by means of the execution of a Participation Agreement.

With certain exceptions, the ability to control the Designated Group Affiliates as described above permits the Corporation to require compliance by the controlled Designated Group Affiliates with the covenants and restrictions contained in the Master Indenture by, among other things, replacement of the members of the governing body of such

Designated Group Affiliate, if necessary. In contrast, the ability of the Corporation to control the operation of those Designated Group Affiliates that have executed Participation Agreements is more limited. If any Designated Group Affiliate which is not controlled by the Corporation refuses to comply with the covenants and requirements of the Master Indenture, the remedies of the Corporation may be limited to litigation to specifically enforce the provisions of the relevant Participation Agreement. Designated Group Affiliates which are not controlled by the Corporation may have certain defenses to such litigation. The execution of a Participation Agreement will not give the Corporation the power or authority to replace the governing body or management of any such non controlled Designated Group Affiliates. For a description of the effect of the federal bankruptcy code and other laws affecting creditor's rights on the ability of the Corporation to enforce the Master Indenture with respect to all Designated Group Affiliates, including particularly the Designated Group Affiliates which are not controlled, see "BONDHOLDERS' RISKS -- Factors That Could Affect the Enforceability of the Master Indenture, the Loan Agreement and the 2000 Obligations," herein.

While the Corporation has no current intention to allow such powers and policies to be modified in any material respect, the Master Indenture would not preclude those reserve powers from being reduced or eliminated from time to time. In addition, no assurance can be given that the Corporation will, in all circumstances, be able to exercise such powers or to enforce such policies (including, without limitation, the ability of the Corporation to cause its Designated Group Affiliates to transfer funds to make payments on the Obligations). See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE -- Payment of Amounts Due Under Any Obligation; Designated Group Affiliates" in Appendix D.

Entities may be designated Designated Group Affiliates by the Corporation from time to time, and such designation may be rescinded by the Corporation from time to time. Although, as discussed above, the Master Indenture requires the Corporation to include the Designated Group Affiliates in covenant calculations required under the Master Indenture, the Master Indenture imposes no limitations on the ability of the Corporation or any future Member of the Obligated Group to rescind the designation of an entity as a Designated Group Affiliate.

The 2000 Obligations are not secured by any pledge of, mortgage on or security interest in the assets (including revenues) of the Corporation or any Designated Group Affiliate. The Master Indenture permits additional indebtedness of the Corporation or the Designated Group Affiliates to be secured by security which need not be extended to any other indebtedness (including the 2000 Obligations).

**Covenant Against Liens; Permitted Senior Indebtedness.** Pursuant to the Master Indenture, each Member of the Obligated Group agrees that it will not create, incur or permit to be created or incurred, and will not allow its Designated Group Affiliates to create, incur or permit to be created or incurred, the existence of any Lien upon its Property, other than Permitted Encumbrances. Permitted Encumbrances include Liens on Property of the Members of the Obligated Group and the Designated Group Affiliates, including Liens which may be granted to secure Indebtedness, including additional Obligations. Such Liens are not required to secure the 2000 Obligations and the 2000 Obligations would be subordinated to such Indebtedness with respect to the Property secured by such liens. See the definition of "Permitted Encumbrances" and "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE --Liens on Property," in Appendix D.

**No Restrictions as to Incurrence of Additional Indebtedness.** The ability of the Corporation and the Designated Group Affiliates and any future Member or Designated Group Affiliate to incur additional indebtedness, including additional indebtedness evidenced by Obligations, and the amount and terms of such additional indebtedness is not limited by the provisions of the Master Indenture.

**No Restrictions as to Transfer of Assets.** The ability of the Corporation and the Designated Group Affiliates and any future Member or Designated Group Affiliate to sell, lease, transfer or otherwise dispose of its assets, is not limited by the provisions of the Master Indenture.

## **DEBT SERVICE REQUIREMENTS**

The following table sets forth for each year ending December 31 the amounts required to be made available for the payment of debt service on the Series 2000 Bonds, at maturity or by mandatory sinking fund redemption, and for the payment of debt service on the 1999A Bonds and the 1997 Bonds.



# Debt Service Requirements

Year Ending December 31, 2000	Indiana Bonds <sup>1</sup>			Illinois Bonds <sup>1</sup>			1999A		1997	
	Principal	Interest	Total	Principal	Interest	Total	Bonds		Bonds	Total
2000	-	5,250,000	5,250,000		2,000,000	2,000,000	7,425,513		14,009,566	28,685,079
2001	1,550,000	5,250,000	6,800,000	600,000	2,000,000	2,600,000	9,920,513		14,002,521	33,323,034
2002	1,650,000	5,172,500	6,822,500	650,000	1,970,000	2,620,000	9,920,713		14,001,044	33,364,256
2003	1,725,000	5,090,000	6,815,000	675,000	1,937,500	2,612,500	9,921,913		13,844,669	33,194,081
2004	1,800,000	5,003,750	6,803,750	700,000	1,903,750	2,603,750	9,913,913		13,840,269	33,161,681
2005	1,925,000	4,913,750	6,838,750	725,000	1,868,750	2,593,750	9,913,913		13,845,059	33,191,471
2006	2,000,000	4,817,500	6,817,500	775,000	1,832,500	2,607,500	9,916,913		13,843,214	33,185,126
2007	2,150,000	4,717,500	6,867,500	800,000	1,793,750	2,593,750	9,922,413		13,447,864	32,831,526
2008	2,250,000	4,610,000	6,860,000	850,000	1,753,750	2,603,750	9,915,913		13,454,094	32,833,756
2009	2,300,000	4,497,500	6,797,500	900,000	1,711,250	2,611,250	9,926,488		13,451,344	32,786,581
2010	2,450,000	4,382,500	6,832,500	925,000	1,666,250	2,591,250	9,919,988		13,444,644	32,788,381
2011	2,550,000	4,260,000	6,810,000	1,000,000	1,620,000	2,620,000	9,917,188		13,454,319	32,801,506
2012	2,725,000	4,132,500	6,857,500	1,025,000	1,570,000	2,595,000	9,919,538		13,452,081	32,824,119
2013	2,850,000	3,996,250	6,846,250	1,075,000	1,518,750	2,593,750	9,926,125		13,450,581	32,816,706
2014	2,975,000	3,853,750	6,828,750	1,150,000	1,465,000	2,615,000	9,916,163		13,448,294	32,808,206
2015	3,150,000	3,705,000	6,855,000	1,175,000	1,407,500	2,582,500	9,919,913		13,443,763	32,801,175
2016	3,325,000	3,547,500	6,872,500	1,250,000	1,348,750	2,598,750	9,925,803		13,451,225	32,848,278
2017	3,475,000	3,381,250	6,856,250	1,300,000	1,286,250	2,586,250	9,913,818		13,449,131	32,805,449
2018	3,625,000	3,207,500	6,832,500	1,375,000	1,221,250	2,596,250	9,919,215		13,286,969	32,634,934
2019	3,800,000	3,026,250	6,826,250	1,450,000	1,152,500	2,602,500	9,925,450		13,292,994	32,647,194
2020	3,950,000	2,836,250	6,786,250	1,525,000	1,080,000	2,605,000	9,921,750		13,279,831	32,592,831
2021	4,200,000	2,638,750	6,838,750	1,600,000	1,003,750	2,603,750	9,912,000		13,287,213	32,641,713
2022	4,375,000	2,428,750	6,803,750	1,675,000	923,750	2,598,750	9,907,500		13,277,719	32,587,719
2023	4,650,000	2,210,000	6,860,000	1,750,000	840,000	2,590,000	9,917,250		11,100,813	30,468,063
2024	4,875,000	1,977,500	6,852,500	1,850,000	752,500	2,602,500	9,909,750		11,096,519	30,461,269
2025	5,125,000	1,733,750	6,858,750	1,950,000	660,000	2,610,000	9,910,000		11,097,769	30,476,519
2026	5,325,000	1,477,500	6,802,500	2,050,000	562,500	2,612,500	9,906,750		11,092,950	30,414,700
2027	5,600,000	1,211,250	6,811,250	2,150,000	460,000	2,610,000	9,904,250		11,095,988	30,421,488
2028	5,900,000	931,250	6,831,250	2,225,000	352,500	2,577,500	9,911,500		-	19,320,250
2029	6,200,000	636,250	6,836,250	2,350,000	241,250	2,591,250	9,912,000		-	19,339,500
2030	6,525,000	326,250	6,851,250	2,475,000	123,750	2,598,750	-		-	9,450,000
<b>Total</b>	<b>105,000,000</b>	<b>105,222,500</b>	<b>210,222,500</b>	<b>40,000,000</b>	<b>40,027,500</b>	<b>80,027,500</b>	<b>295,014,148</b>		<b>367,242,443</b>	<b>952,506,590</b>

<sup>1</sup> Assumes an interest rate of 5.0% per annum.

## **THE CORPORATION AND THE DESIGNATED GROUP AFFILIATES**

On the Issue Date, the Obligated Group will consist solely of the Corporation. As of the Issue Date, the Corporation expects to own eight healthcare center campuses. Two additional healthcare center campuses are owned by St. Margaret Mercy.

On the Issue Date, the following corporations will be Designated Group Affiliates: St. Margaret Mercy, St. Francis-Central Indiana, St. Anthony Memorial, CHM, Alverno Lab, St. James, SAMC and St. Clare. Entities may be designated Designated Group Affiliates by the Corporation from time to time, and such designation may be rescinded by the Corporation from time to time. The Designated Group Affiliates are not Members of the Obligated Group and are not liable for payment of the Obligations. See "SECURITY FOR THE BONDS -- The Master Indenture."

See the map of the facilities owned by the Corporation and the Designated Group Affiliates on the Issue Date on the inside cover of this Official Statement. The map also includes the facilities in Lafayette, Indiana which are owned by GLHS. For a more complete description of the facilities owned and operated by the Corporation and the Designated Group Affiliates, see the information under the caption "THE OBLIGATED GROUP AND DESIGNATED GROUP AFFILIATES" in Appendix A.

## **PLAN OF FINANCE**

### **The Project**

Approximately \$16,422,249 of the proceeds of the Indiana Bonds will be used to fund the acquisition of certain equipment and the construction of certain additions and improvements to the facilities owned by the Corporation and the Designated Group Affiliates in Indiana. Approximately \$8,384,725 of the proceeds of the Illinois Bonds will be used to fund the acquisition of certain equipment and the construction of certain additions and improvements to the facilities owned by the Corporation and the Designated Group Affiliates in Illinois.

### **Payment of the Notes**

As described under the caption "ST. CLARE, OLYMPIA FIELDS AND MOORESVILLE TRANSACTIONS" in Appendix A, the Corporation has purchased the St. Clare Facilities, the Mooresville Facilities and the Olympia Fields Facilities. On September 29, 1999, the Indiana Authority issued \$66,900,000 of its Hospital Revenue Notes, Series 1999 (Sisters of St. Francis Health Services, Inc. Project) (the "St. Clare Notes") to purchase substantially all of the assets of Culver Union Hospital (the "St. Clare Facilities") in Crawfordsville, Indiana (the "St. Clare Transaction"). Subsequent to the closing of the St. Clare Transaction, the Corporation changed the name of Culver Union Hospital to St. Clare Medical Center. Approximately \$67,355,945 of the proceeds of the Indiana Bonds will be used to pay off the St. Clare Notes.

On December 16, 1999, the Indiana Authority issued \$20,000,000 of its Hospital Revenue Notes, Series 1999B (Sisters of St. Francis Health Services, Inc. Project) (the "Mooresville Notes") to purchase substantially all of the assets of Kendrick Memorial Hospital (the "Mooresville Facilities") in Mooresville, Indiana (the "Mooresville Transaction"). Subsequent to the closing of the Mooresville Transaction, the Corporation changed the name of Kendrick Memorial Hospital to St. Francis Hospital and Health Centers, Mooresville. Approximately \$20,136,306 of the proceeds of the Indiana Bonds will be used to pay off the Mooresville Notes.

On December 16, 1999, the Illinois Authority issued \$31,000,000 of its Hospital Revenue Notes, Series 1999C (Sisters of St. Francis Health Services, Inc. Project) (the "Olympia Fields Notes") to purchase substantially all of the assets of the Olympia Fields Regional Osteopathic Medical Center (the "Olympia Fields Facilities") in Olympia Fields, Illinois (the "Olympia Fields Transaction"). Subsequent to the closing of the Olympia Fields Transaction, the Corporation changed the name of the Olympia Fields Regional Osteopathic Medical Center to St. James Hospital and Health Centers, Olympia Fields. Approximately \$31,211,275 of the proceeds of the Illinois Bonds will be used to pay off the Olympia Fields Notes. (The St. Clare Notes, the Mooresville Notes and the Olympia Fields Notes are collectively referred to herein as the "Notes").

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Series 2000 Bonds.

<u>Uses:</u>	<u>Indiana Bonds</u>	<u>Illinois Bonds</u>	<u>Total</u>
Deposit to Project Fund	\$ 16,422,249	\$ 8,384,725	\$ 24,806,974
Deposit to pay off the Notes	87,492,251	31,211,275	118,703,526
Costs of Issuance <sup>1</sup>	<u>1,085,500</u>	<u>404,000</u>	<u>1,489,500</u>
<b>Total Uses:</b>	<b>\$105,000,000</b>	<b>\$40,000,000</b>	<b>\$145,000,000</b>
 <u>Sources:</u>			
Par Amount of Series 2000 Bonds	<u>\$105,000,000</u>	<u>\$40,000,000</u>	<u>\$145,000,000</u>
<b>Total Sources:</b>	<b>\$105,000,000</b>	<b>\$40,000,000</b>	<b>\$145,000,000</b>

## BONDHOLDERS' RISKS

The purchase of the Series 2000 Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Series 2000 Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below. **Risks discussed in terms of their possible effect on the Corporation may also affect any future Obligated Group Members and any present and future Designated Group Affiliates.** The discussion of risk factors is not meant to be exhaustive.

### General

Except as noted herein, the Series 2000 Bonds are payable solely from, and secured by, monies to be received by the Authority from the Corporation under the Loan Agreement and payments by the Corporation and any future Members of the Obligated Group on the 2000 Obligations pursuant to the Master Indenture. No representation or assurance can be made that revenues will be realized by the Corporation or other future Members of the Obligated Group in amounts sufficient to make payments required by the Loan Agreement or the 2000 Obligations and thus to pay maturing principal, mandatory sinking fund requirements and interest on the Series 2000 Bonds. Future economic and other conditions, including the demand for health care services, economic trends and events, technological developments and demographic changes, the confidence of physicians and the public in the Corporation and any future Members of the Obligated Group, malpractice claims and other litigation, competition, changes in the methods and rates of third-party and governmental reimbursement as well as increased costs and changes in government regulations, including Internal Revenue Service policy regarding tax exemption, may adversely affect the future financial condition of the Corporation or the Obligated Group and, consequently, their ability to make payments of the principal of and premium, if any, and interest on the Series 2000 Bonds. **There can be no assurance given that the financial condition of the Corporation and any future Members of the Obligated Group and/or utilization of the facilities of the Corporation and any future Members of the Obligated Group will not be adversely affected.**

### Limited Covenants

The ability of the Corporation and the Designated Group Affiliates, and any future Member or Designated Group Affiliate, to incur indebtedness (including additional Obligations) or to sell, lease, transfer or dispose of assets is not limited by the provisions of the Master Indenture or any other document relating to the Series 2000 Bonds. See "SECURITY FOR THE SERIES 2000 BONDS - The Master Indenture."

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<sup>1</sup>Includes legal, printing, underwriting discount and other miscellaneous costs of issuance.

## **Federal and State Legislation**

The Corporation is subject to a wide variety of federal regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare and Medicaid programs and other third party payors, and actions by, among others, the Department of Health and Human Services, the Internal Revenue Service, the Office of the Inspector General, the National Labor Relations Board, the Joint Commission on the Accreditation of Healthcare Organizations, the American Osteopathic Association and other federal, state and local governmental agencies. There can be no assurance that such agencies and legislative bodies may not make regulatory or legislative policy changes that could produce adverse effects upon the ability of the Corporation and any future Members of the Obligated Group to generate revenues or upon the utilization of their health facilities.

Wide variations of bills and regulations proposing to regulate, control or alter the method of financing healthcare costs are often proposed and introduced in Congress, state legislatures and regulatory agencies. Legislation or regulatory actions have been enacted, proposed or discussed which would, among other things:

- Condition the use of tax-exempt financing and the receipt of certain Medicare funding on hospital acceptance of Medicaid patients;
- Condition tax exemption on furnishing a full-time emergency room and deny tax exemption for any period of time during which a hospital's Medicare provider agreement is terminated or suspended due to a violation of the emergency medical screening and transfer requirements;
- Condition tax exemption on provision of certain levels of charity care;
- Set new standards for medical staff peer review, potentially increasing hospital exposure to litigation and/or liability regarding medical staff disputes;
- Prohibit many hospital-physician joint business ventures which are typical of the healthcare industry, and limit the permissibility of many other hospital-physician employment, contractual and business relationships;
- Effectively reintroduce a new federally mandated health planning process through which capital improvements would require more extensive government approval;
- Prohibit patient referral arrangements for items or services between physicians and providers in which referring physicians have certain financial interests;
- Increase the probability of labor union organization and activity in the healthcare industry;
- Restrict rate increases by private hospitals;
- Shift funding for Medicaid to block grants to the states; and
- Impose provider taxes on hospitals at the federal level or in one or more states.

Because of the many possible financial effects that could result from enactment of any bills or regulatory actions proposing to regulate the healthcare industry, it is not possible to predict with assurance the effect on the business of the Corporation and any future Members of the Obligated Group, if any, of such bills or regulatory actions.

## **Tax-Exempt Status**

**Covenants to Maintain Tax-Exempt Status of Interest on the Series 2000 Bonds.** The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2000 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that issuers

file an information report with the Internal Revenue Service. The Authority and the Corporation will covenant in certain of the documents referred to herein that they will comply with such requirements. Future failure by the Corporation to comply with any of these covenants may result in the treatment of interest on the Series 2000 Bonds as taxable, retroactively to the date of issuance.

**Maintenance of the Tax-Exempt Status of the Obligated Group Members.** The tax-exempt status of the Series 2000 Bonds presently depends upon the Corporation's maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which do not conduct large-scale operations and business activities, they often do not directly address the myriad of operations and transactions entered into by a modern hospital organization. The Internal Revenue Service ("IRS") has announced that it intends to closely scrutinize transactions between not for profit and for profit entities and, in particular, has issued audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases have been the subject of interpretations by the Internal Revenue Service in the form of Private Letter Rulings, many activities or categories of activities have not been addressed in any official opinion, interpretation, or policy of the Internal Revenue Service.

In October 1991, the IRS issued a General Counsel Memorandum ("GCM"), a statement of IRS policy and interpretation, which has increased uncertainty over the IRS's position on a wide variety of activities commonly undertaken by health care organizations. The GCM (1) recommended the revocation of three previous IRS Private Letter Rulings which approved the sale by hospitals of certain net revenue streams to joint ventures involving physicians, (2) modified a prior GCM to make it clear that the IRS does not believe that entering into a joint venture with physicians to maintain or enhance a hospital's market share furthers a hospital's charitable purposes, and (3) stated that violations of the Medicare anti-fraud and abuse law or other federal laws by a tax-exempt provider may jeopardize the provider's federal tax exemption. See "The Medicare Program -- Audits, Exclusions, Fines and Enforcement Action" and " -- Self-Referral Prohibitions" herein. As a wide variety of commonplace hospital-physician transactions might be interpreted to violate the Medicare and Medicaid anti-fraud and abuse laws or the prohibitions against self-referrals or other federal laws, the GCM has broadened the range of activities that may directly affect tax exemption, without defining specifically how such rules will be applied. As a result, tax-exempt hospitals are currently subject to an increased degree of scrutiny and perhaps enforcement by the IRS concerning transactions with physicians.

In 1998, the IRS issued a Revenue Ruling (the "Revenue Ruling") addressing the issue of whether a non-profit hospital that participates in a whole hospital joint venture with for-profit entities continues to qualify for tax exemption, and a 1999 federal Tax Court case addressed similar issues. Only two scenarios were discussed in the Revenue Ruling, and the IRS analysis was very fact specific. The Revenue Ruling and the Tax Court decision set forth a number of factors that the IRS will consider relevant in its analysis of such joint ventures. However, the issue remains as to whether this analysis will be applied to other types of joint ventures between for-profit and non-profit entities.

Management of the Corporation believes that the Corporation is not a participant in any joint venture of the specific type addressed in the GCM or the Revenue Ruling. However, the Corporation is and will be a participant in a variety of joint ventures and transactions with physicians. Management of the Corporation believes that the joint ventures and transactions to which the Corporation is and will be a party are consistent with the requirements of its tax-exempt status, but, as noted above, the GCM, the Revenue Ruling and the case law create uncertainty as to the state of the law in this regard.

Under the Code, one penalty available to the IRS is the revocation of the tax-exempt status of 501(c)(3) nonprofit healthcare corporations. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit healthcare corporations, it could do so in the future. It is possible that loss of tax-exempt status by the Corporation or any future Member of the Obligated Group could result in loss of tax exemption of the Series 2000 Bonds or of other tax-exempt debt of the Obligated Group, and defaults in covenants regarding the Series 2000 Bonds or other related tax-exempt debt would likely be triggered. Loss of tax-exempt status could also result in substantial tax liabilities on taxable income of the Corporation. For these reasons, loss of tax-exempt status of the Corporation or any Designated Group Affiliate could have material adverse consequences on the financial condition of the Corporation.

Given the uncertainty with respect to the standards applied by the IRS to a wide variety of hospital transactions, the Corporation and any future Members of the Obligated Group are thus also at risk for incurring substantial monetary liabilities imposed by the IRS, as well as threatened revocation of exempt status.

**State Income Tax Exemption and Local Property Tax Exemption.** It is likely that the loss by the Corporation or any future Obligated Group Member of federal tax exemption would also trigger a challenge to the state tax exemption of such Obligated Group Member. Depending on the circumstances, such event could be adverse and material.

In recent years, state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt healthcare providers with respect to their real property tax exemptions. In some cases, particularly where such authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the healthcare providers has been questioned. Some states have proposed or are anticipated to propose enactment of legislation that would require a tax-exempt hospital to provide indigent care in an amount commensurate with the amount of real property taxes from which the hospital is exempted.

**Unrelated Business Income.** In recent years, the IRS and state, county and local taxing authorities have undertaken audits and reviews of the operations of tax-exempt hospitals with respect to the generation of unrelated business taxable income ("UBTI"). The Corporation does participate in activities which may generate UBTI. An investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Corporation or possibly the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2000 Bonds.

### **The Medicare Program**

The facilities operated by the Corporation are certified as providers for Medicare services and participate in the Medicare program. In 1999, Medicare payments for the Health Centers constituted approximately 43.3% of the gross patient revenues of the Corporation. As a result, the Corporation will have a significant dependence on Medicare as a source of revenue, and changes in the Medicare program are likely to have a material effect on the Corporation. The requirements for Medicare certification and participation are subject to change, and in order to remain qualified for the program, it may be necessary for the Corporation to effect changes from time to time in its facilities, equipment, personnel and services. The Corporation intends to continue to participate in the Medicare program.

**Effects of 1997 Budget Reconciliation Process.** Current and future Medicare hospital spending is likely to be reduced or the rate of growth substantially slowed in order to accommodate the future efforts to balance the federal budget. Such reductions may be significant and could have a material adverse impact on the financial condition of the Corporation and any future Members of the Obligated Group. President Clinton signed the Balanced Budget Act of 1997 (the "1997 Act") on August 5, 1997. The 1997 Act is proposed to slow the growth in Medicare spending by \$115 billion over 5 years. The expected savings, by Federal Fiscal Year are as follows:

<u>Fiscal Year</u>	<u>Expected Savings</u>
1998	\$ 6.8 billion
1999	\$ 16.8 billion
2000	\$ 25.1 billion
2001	\$ 25.1 billion
2002	\$ 41.2 billion

**Medicare Reimbursement of Hospitals.** Under the prospective payment system, Medicare pays general acute care hospitals a predetermined rate for each covered hospitalization. Each such hospitalization is classified into one of several hundred categories of possible treatments or conditions, known as "diagnosis related groups" ("DRGs"). Hospitals are paid a predetermined amount based on the DRG to which each patient is assigned. The DRG rate is not related to the actual cost to a specific hospital of treating a patient. It is a fixed sum, generally based on national cost data.

DRG rates may be adjusted on an annual basis as part of the federal budget reconciliation process and are thus subject to deficit reduction activities aimed at the federal budget generally and/or the Medicare program specifically. There is no guarantee that such Medicare reimbursement rates, as they change from time to time, will cover the Corporation's or any future Obligated Group Member's actual costs of providing services to Medicare patients.

The 1997 Act provides for a new Medicare Part C, the Medicare+Choice program. This program is expected to increase the number of Medicare beneficiaries electing an alternate health plan option. The Medicare+Choice program provides three options: Fee-For-Service; Coordinated Health Plans; and Provider Sponsored Organizations. Coordinated Health Plans encompass both Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs). Medicare HMOs and PPOs enter into contractual arrangements with hospitals, pursuant to which the HMO or PPO pays negotiated rates which may be less than standard Medicare DRG rates. Such Medicare HMOs may pay providers on a "capitated" basis; that is, at a predetermined amount per enrollee regardless of the value of services used by enrollees. The development of Medicare HMOs and PPOs could materially and adversely affect the financial condition of the Corporation and any future Members.

**Disproportionate Share Hospitals.** The Medicare Program provides additional payment for hospitals, including the Health Centers, that serve a disproportionate share of low income patients. To qualify as a disproportionate share hospital, a number of factors are considered, including number of beds, location and disproportionate patient percentage. The 1997 Act reduced disproportionate share payments and required the Health Care Financing Administration (HCFA) to develop a new payment formula. There can be no assurance that payments for disproportionate share will not be decreased or eliminated in the future, or that the Health Centers will continue to qualify for disproportionate share status. Such changes could have a material adverse impact on the financial condition of the Corporation or any future Members that operate disproportionate share hospitals.

**Reimbursement for Psychiatric, Rehabilitation and Outpatient Services.** Psychiatric, rehabilitation and outpatient services are currently exempt from the prospective payment system. As a result, providers of these services, such as the Corporation, may obtain payments for providing such services to Medicare beneficiaries based on the cost of, or a portion of the cost of, providing the services. It is currently proposed that rehabilitation and all outpatient services will become part of a prospective payment system in the next few years.

Pursuant to the 1997 Act, rehabilitation services are scheduled to be phased into PPS during the two-year transition period commencing October 1, 2000. Similarly, legislation has been introduced which would phase in PPS for psychiatric services after the year 2000. The BBA also had directed the Secretary of the Department of Health and Human Services to implement outpatient PPS by January 1, 1999. HCFA published proposed outpatient rules on September 8, 1998, but postponed implementation of outpatient PPS until after January 1, 2000 in order to allow HCFA to dedicate its resources to ensuring Year 2000 compliance. On March 31, 2000, HCFA announced the new PPS for hospital outpatient services. The new regulations were published on April 7, 2000 and are to go into effect July 1, 2000. Once PPS is implemented for any of these services, it is possible that the revenues the Corporation expects to receive from providing such services to Medicare beneficiaries will decrease. Although the impact of these changes on the Corporation cannot be predicted at this time, such changes could have a materially adverse effect on the financial condition of the Corporation.

**Home Health Services.** The 1997 Act required Medicare to develop a prospective payment system for home health services, to be implemented for cost reporting periods beginning on and after October 1, 1999. However, as with outpatient PPS, the home health PPS was delayed, and the proposed PPS for home health is to become effective October 1, 2000.

In anticipation of the new home health PPS, the 1997 Act established an interim payment system for home health services. For services provided on or after October 1, 1997, and until the home health PPS is implemented, home health agencies are paid at the lowest of the following: (a) their reasonable costs; (b) the per-visit payment limit for services on or after October 1, 1998, which is set at 106% of the national median of costs for freestanding home health agencies; or (c) a blended, agency-specific per beneficiary limit, which is based on 98% of the agency's 1994 costs. The per beneficiary limit, which was added by the 1997 Act, has had a substantial impact on many home health agencies, and once the PPS system is implemented, PPS could significantly affect the revenue received by the Corporation's home health services.

In addition, the 1997 Act mandates that all home health agencies provide on a continuing basis a surety bond of at least \$50,000 in order to participate in Medicare and Medicaid. HCFA has published and revised proposed regulations and program memoranda relating to surety bonds throughout 1998 and 1999. Currently, the effective date of the surety bond requirement remains January 1, 1998, but compliance with the surety bond requirements was suspended until 60 days after the final regulation is published. The new home health agency payment provisions and bond requirements may adversely impact the operations of the Corporation.

**Physician Services.** Certain physician services are reimbursed on the basis of a national fee schedule called the "resource based-relative value scale" ("RB-RVS"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. The 1997 Act established a new limit on the growth of Medicare payments for physicians' services. The new system is linked to changes in the U.S. gross domestic product. The previous system was linked to growth in medical inflations. As such, the new system is expected to result in lower Medicare expenditures for physicians' services over time.

**Graduate Medical Education.** Medicare reimburses teaching hospitals, such as the Olympia Fields Facilities, the St. Francis - Beech Grove/Indianapolis/Mooresville Facilities and the St. Margaret Mercy Facilities, for the direct and indirect costs of their approved graduate medical education ("GME") programs. Medicare reimburses direct GME costs, which include resident salaries, fringe benefits and physician compensation costs for teaching activities, based on the hospital's "cost per resident," as determined in the hospital's base year (and as defined in the regulations). Medicare pays hospitals an additional amount for indirect GME costs, which include costs attributable to increased diagnostic testing and higher staffing ratios. Congress has recently proposed legislation that would reduce or eliminate hospitals' GME reimbursement. The 1997 Act provides for reductions in payments for both direct and indirect GME payments. Management of the Corporation believes that such changes are unlikely to have a material adverse effect on the financial condition of the Corporation.

**Capital Cost Reimbursement.** Reimbursement for capital related costs has been incorporated into the prospective payment system beginning with cost reporting periods after October 1, 1991. Capital costs will be phased into the prospective payment system over a period of ten years and such phase-in may constitute an overall reduction of hospital reimbursement for capital costs. The phase-in will be complete October 1, 2001, after which time hospitals will be reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. The 1997 Act rebased capital payment rates and reduced such rates by 2.1%. Management of the Corporation believes that the changes, while significant, are unlikely to have a material adverse effect on the financial condition of the Corporation.

**Funded Depreciation Accounts.** Hospitals, including the Health Centers, maintain "funded depreciation accounts" which are comprised of board-designated funds set aside for the replacement of depreciable assets. The Medicare program imposes certain requirements on the use and maintenance of these funded depreciation accounts. Failure to use and maintain these accounts in accordance with the Medicare requirements may result in disallowances of reimbursement for certain interest related expenses. The Corporation may from time to time make use of money in its funded depreciation accounts for a variety of purposes. As these regulations are numerous and complex, there can be no assurances that the Medicare program will not, as a consequence of these uses, disallow interest expense in amounts which could be material to the operations and financial condition of the Corporation.

**Patient Transfers.** In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress has enacted the so-called "anti-dumping" statute. This law imposes certain requirements which must be met before transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties. Failure of the Corporation or any future Obligated Group Members to meet their responsibilities under the law could adversely affect the financial condition of the Obligated Group Members.

**Audits, Exclusions, Fines and Enforcement Actions.** Medicare participating hospitals are subject to audits and retroactive audit adjustments with respect to the Medicare program. Such adjustments may exceed any reserves established and may be substantial. Medicare regulations also provide for withholding Medicare payment in certain circumstances, and such withholdings could have a substantial adverse effect on the ability of the Corporation to make



payments with respect to the Loan Agreement and the 2000 Obligations or on its overall financial condition. Management of the Corporation is not aware of any such situation with respect to the Health Centers.

There is an increasingly expanding and complex body of laws, regulations and policies relating to Medicare which is not directly related to Medicare payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducement of business or referrals, all of which carry potentially significant penalties for noncompliance.

(i) **Federal Medicare/Medicaid Anti Fraud and Abuse Laws.** The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (also referred to as the "Anti-Kickback Law") prohibits knowingly and willfully offering, paying, soliciting or receiving remuneration in order to induce business for which reimbursement is provided under the Medicare, Medicaid and other federal health care programs, including any program or plan funded in whole or in part by the federal government (except the federal employee health benefit program). The scope of prohibited payments under the Anti-Kickback Law are so broadly drafted (and so broadly interpreted by several applicable federal cases and in statements by officials of the Office of Inspector General) that they may create liability in connection with a wide variety of business transactions and other hospital-physician relations that have been traditional or commonplace in the healthcare industry. Limited statutory exceptions and "safe harbor" regulations define a narrow scope of practices that will be exempted from prosecution or other enforcement action. Activities that fall outside of the safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties.

Because the published regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law. On the other hand, failure to meet a safe harbor's requirements does not mean that a violation of the statute has occurred.

Violations of the Medicare anti-fraud and abuse laws may result in civil and criminal penalties. Civil penalties for violations of the anti-fraud provisions include temporary or permanent exclusion from the Medicare and Medicaid programs (which accounts for a significant portion of revenue and cash flow of most hospitals, including those to be operated by the Corporation). In addition to the current civil monetary penalties under the Anti-Kickback Law, the 1997 Act created a new civil monetary penalty for violations of the federal anti-kickback statute for cases in which a person contracts with an excluded provider for the provision of health care items or services where the person knows or should know that the provider has been excluded from participation in a federal health care program. Violations will result in damages three times the remuneration involved as well as a penalty of \$50,000 per violation.

If determined adversely to the Corporation or any future Obligated Group Member, enforcement actions could have materially adverse consequences with respect to the Obligated Group. These penalties may be applied to many situations in which hospitals and physicians conduct joint business activities, physician recruiting and retention programs, various forms of hospital assistance to medical practices or the physician contracting entities, physician referral services, hospital physician service or management contracts, and space or equipment rentals between hospitals and physicians. The Corporation will likely conduct many activities of these general types or similar activities, which may pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the Office of Inspector General, which is charged with enforcement.

While management of the Corporation is not aware of any challenge related to the Health Centers with respect to such matters, there can be no assurance that one or more will not occur in the future. See "Tax-Exempt Status - Maintenance of the Tax-Exempt Status of the Obligated Group Members" above for further discussion concerning tax-exempt status and joint venture business activities.

Hospitals often engage in programs which waive certain Medicare coinsurance and/or deductible amounts. Many such waiver programs may be considered to be in violation of certain rules and policies applicable to the Medicare program and may be subject to enforcement action. The extent to which challenges or prosecutions of hospitals involved in these programs may be initiated is uncertain as is the ultimate outcome. If an agency or court were to conclude that such waivers violated the applicable law or regulations, there is a possibility that the Corporation could

be excluded from participation in the Medicare and Medicaid program, and/or assessed fines and penalties which could be substantial, and/or that Medicare payments might be withheld from the Corporation.

Medicare also requires that certain financial information be reported on a periodic basis, and with respect to certain types of classifications of information, penalties are imposed for inaccurate reports. These requirements are numerous, technical and complex and there can be no assurance that the Corporation and any future Obligated Group Members may not incur such penalties in the future. With respect to certain types of classifications of information, the False Claims Act and other similar laws may be violated merely by reason of inaccurate or incomplete reports if it is determined that the entity submitting such claims or reports knew or should have known that such reports were incorrect. As a consequence, ordinary course errors or omissions may also result in liability. New billing systems, new medical procedures and procedures for which there is not clear guidance from HCFA or other regulatory authorities may all result in liability under federal false claim prohibitions, including the False Claims Act and other similar laws. These penalties may be material or adverse and could include criminal or civil liability for making false claims and/or exclusion from participation in the Medicare program.

The False Claims Act provides that a private individual may bring a civil action on behalf of the United States government. These actions are referred to as *Qui Tam* actions. In this way, a hospital employee would be able to sue on behalf of the U.S. government if he/she believes that the hospital has committed fraud. If the government proceeds with an action brought by this individual, then he/she could receive as much as 25 percent of any money recovered. The potential exists that *Qui Tam* action could be brought against any hospital. While management is not aware of any challenge or investigation with respect to such matters, there can be no assurance that such challenge or investigation will not occur in the future.

(ii) **"Self-Referral" Prohibitions.** The Omnibus Budget Reconciliation Act of 1993 (the "1993 Budget Act"), expanded the scope of provisions originally enacted in 1989 (commonly referred to as the "Stark Law") and specifically prohibits any physician having a "financial relationship" with an entity from making a referral to that entity, and prohibits the entity from billing the Medicare (or Medicaid) program for the furnishing of certain "designated health services" for which payment otherwise would be obtained under the Medicare or Medicaid programs (unless that relationship meets an exception). Violations may result in exclusion from the Medicare and Medicaid programs, denial of payment, refund of payments received or fines of up to \$15,000 per service or \$100,000 per financial relationship. The Corporation has various relationships with physicians that may be characterized as "financial relationships" under the Stark Law. The Stark Law contains numerous ambiguities and numerous questions of interpretation. Apart from certain regulations purporting to interpret the clinical laboratory service provisions and proposed regulations related to the other designated health services, there currently is no definitive guidance with respect to the Stark Law's prohibition. The impact on the Corporation cannot be determined at this time.

(iii) **Civil Monetary Penalties Law and Other Federal Fraud Provisions.** Under the Civil Monetary Penalties Law of the Social Security Act (the "CMP Law"), civil monetary penalties may be imposed against any person who knowingly presents or causes to be presented a claim (i) for items or services not provided as claimed (including coding), (ii) that is false or fraudulent, (iii) for services provided by an unlicensed or uncertified physician, (iv) for items or services provided by an excluded person, or (v) for items or services that are not medically necessary. Penalties include up to \$10,000 for each item or service claims plus an assessment of up to three times the amount claimed for each such item of service. The CMP Law applies to all federal healthcare programs.

Enforcement activity in this area appears to be increasing, and enforcement authorities may be adopting more aggressive approaches. In the current regulatory climate, it should be expected that many hospitals and physician groups will be subject to an investigation or inquiry regarding billing practices and false claims.

Enforcement authorities are in a position to compel settlements by providers charged with false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments, and/or by threatening criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement.

In addition to the CMP provisions, and those of the 1997 Act discussed above, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established a variety of provisions designed to control fraud and abuse in

the government programs and to strengthen enforcement capabilities. HIPAA created new health care crimes, expanded the Medicare and Medicaid exclusion provisions to provide reciprocal exclusion of entities and individuals with ownership or controlling interest in such entities and increased civil monetary penalties for a variety of actions.

## **Medicaid Program**

Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependents. Under Medicaid, the federal government provides grants to states that have medical assistance programs that are consistent with federal standards. The 1997 Act decreased the growth in federal Medicaid spending by approximately \$15 billion over the next five years. Reductions in federal Medicaid spending will almost certainly produce further reductions in state programs. As with federal programs, state programs financing Medicaid assistance have implemented cost containment policies and reductions in spending. In 1999, payments from Medicaid constituted approximately 7.3% of the gross patient revenues of the Corporation. The impact on the Corporation of the federal and state reductions cannot be determined at this time, but could have a material adverse effect on the financial condition of the Corporation and any future Obligated Group Members.

**Indiana Medicaid.** Since November 4, 1994, the Indiana Medicaid program has made payments to hospitals pursuant to a diagnostic related group system which bases payments on patient discharges. Previously, the Indiana Medicaid program reimbursed hospitals for inpatient services on the basis of the hospital's reasonable costs as determined by Medicare cost reimbursement principles and limited such reimbursement by allowing only specified increased in the per discharge target rates based upon certain fiscal year inflationary adjustment percentages.

Effective March 1, 1994, outpatient reimbursement under the Indiana Medicaid program is based upon established fee schedule allowances and rates for surgery groups. Previously, outpatient reimbursement was made on a prospective reimbursement methodology providing a predetermined percentage based on an aggregate "cost-to-charge" ratio, with no year-end costs settlement.

Certain Indiana hospitals that serve a disproportionate share of Medicaid and low income patients may be eligible to receive disproportionate share payment adjustments. The basic disproportionate share payments are lump sum payments based on each hospital's Medicaid and low income patient utilization. The enhanced disproportionate share payment adjustment provides additional funds to eligible hospitals based on their Medicaid discharges and patient days.

**Illinois Medicaid.** Medicaid in the State of Illinois is administered by the Illinois Department of Public Aid. During certain fiscal years, the amount appropriated by the Illinois General Assembly for payment of Medicaid claims has not been sufficient to reimburse hospitals for services provided to Medicaid patients. During certain years, the State of Illinois ceased making such payments and hospitals were paid on a delayed basis through either emergency appropriations or additional appropriations made during the ensuing fiscal year. Failure of the State of Illinois to pay Medicaid claims on a timely basis may have a material adverse effect on the Corporation's cash flow and financial condition.

On July 11, 1996, the Health Care Financing Administration, an agency of the United States Department of Health and Human Services, approved Illinois' Section 1115 Medicaid demonstration proposal, entitled "Illinois MediPlan Plus Demonstration," beginning August 1997. The goal of the demonstration is to increase access and quality of health care for the State of Illinois' 1.1 million Medicaid beneficiaries and limit rising costs through the increase use of managed care. Illinois intends to contract with a mix of health maintenance organizations, managed care community networks ("MCCNs"), and enrolled managed care providers that incorporate Federally Qualified Health Centers, Rural Health Clinics and physicians who agree to provide primary care case management services. In addition, as a transition to managed care, for a limited period, community providers who are interested in forming an MCCN will be permitted to participate as a Prepaid Health Plan in order to gain incremental experience in operating a managed delivery system.

MediPlan Plus will be implemented statewide. There will be no eligibility expansion under the demonstration program. All services available under the current Medicaid program will be offered to beneficiaries under the demonstration program, but the following services will be available on a fee-for-service rather than a capitated basis: behavioral health services; alcohol and substance abuse services; rehabilitation services; dental, podiatric, optical and

optometric services; lead screening and laboratory services; skilled nursing services (more than 100 days); long-term care services; and services provided under waiver programs. It is currently not possible to predict how this new program will affect the Obligated Group.

### **Private Health Plans and Insurers**

Certain private insurance companies contract with hospitals on an "exclusive" or a "preferred" provider basis, and some insurers have introduced plans known as "preferred provider organizations" ("PPOs"). Under such plans, there may be financial incentives for subscribers to use only those hospitals which contract with the plans. Under an exclusive provider plan, which includes most health maintenance organizations ("HMOs"), private payors limit coverage to those services provided by selected hospitals. With this contracting authority, private payors may direct patients away from unselected hospitals by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. Many healthcare providers, including the Health Centers, do not have accurate information about their actual costs of providing specific types of care, particularly since each patient presents a different mix of services and length of stay. Consequently, the discounts offered to HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Therefore, the future financial consequences of such contracts may be unknown and their effect on the Corporation's financial condition may be different in the future than that reflected in the financial statements set forth herein.

Some HMOs offer and mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO's enrollees. In some cases, the capitated payment covers total patient care provided, including the physician's component. If payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care, the financial condition of the hospital may erode rapidly and significantly. Often, HMO or PPO contracts are enforceable for a stated term, regardless of provider losses. Furthermore, HMO contracts may contain a requirement that the hospital care for HMO enrollees for a certain period of time regardless of whether the HMO has funds to make payment to the hospital.

The Corporation currently has contracts with HMOs, PPOs and other managed care providers. Such programs individually negotiate payment terms with the Corporation, which terms include discounted fee-for-service payments or discounted fixed rate per day of care payments. There is no assurance that the Corporation will maintain such contracts or obtain other similar contracts in the future. Failure to maintain such PPO and HMO contracts could have the effect of reducing the Corporation's patient base or gross revenues. Conversely, participation may maintain or increase the patient base, but may result in reduced payment and lower net income to the Corporation. Furthermore, the effect of such contracts on the Obligated Group's financial statements may be different in the future than that reflected in the financial statements for the current period. See "MANAGEMENT'S DISCUSSION -- Managed Care Initiatives" in Appendix A.

Individual managed care contracts will account for a significant portion of the gross revenues of the Corporation. Termination, or expiration without renewal, of such contracts would have a material adverse impact on the financial condition of the Corporation. There can be no assurances that such contracts will be renewed by the respective managed care providers upon expiration or not terminated prior to expiration.

Increasingly, physician practice groups, independent practice associations and other physician management companies have become a part of the process of negotiating payment rates to hospitals by private insurers and health plans. This involvement has taken many forms but typically increases the competition for limited payment resources from private insurers and health plans.

## **Integrated Delivery Systems**

Many hospitals and health systems, including the Corporation, are pursuing strategies with physicians that may be capital intensive and that may create certain business and legal liabilities for the related hospital or health system. Such integration strategies take many forms, including medical service organizations ("MSOs") or physician-hospital organizations ("PHOs"), which may provide a combination of financial and managed care contracting, and facilities and equipment to groups of physicians. Other integration structures include hospital-based clinics or medical practice foundations, which may purchase and operate physician practices, as well as provide all administrative services to physicians.

Often the start-up funding for such developments, as well as operational deficits, may be capitalized by the sponsoring hospital or health system. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. In some cases, the sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity which is carrying out an integrated delivery strategy. In certain of these structures, the sponsoring hospital or health system may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis.

These types of integrated delivery developments are generally designed to conform to existing trends in the delivery of medicine, to implement anticipated aspects of healthcare reform, to increase physician availability to the community and/or enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not be achieved, and, if the development is not functionally successful, it may produce materially adverse results that are counterproductive to some or all of the above-stated goals.

All such integrated delivery developments carry with them the potential for legal or regulatory risks in varying degrees. Such developments may call into question compliance with the Medicare Anti-Kickback or Stark laws (collectively, the "anti-referral laws") and relevant antitrust laws (discussed above under "The Medicare Program" and below under "Antitrust"). Questions of federal or state tax exemption may arise in certain types of developments or as a result of formation, operation or future modification of such developments (see "Tax-Exempt Status of the Obligated Group" above). MSOs which operate at a deficit over an extended period of time may raise significant risks of investigation or challenge regarding tax-exemption or compliance with the Medicare anti-referral laws. In addition, depending on the type of development, a wide range of governmental billing and reimbursement issues may arise, including questions of the authorization of the entity to bill for or on behalf of the physicians involved. Other related legal and regulatory risks may arise, including employment, pension and benefits, and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding healthcare and medical practice. There can be no assurance that such issues and risks will not lead to material adverse consequences in the future.

## **Affiliation, Merger, Acquisition and Divestiture**

As with many multi-hospital systems, the Corporation plans for, evaluates and pursues potential merger and affiliation candidates on a consistent basis as part of its overall strategic planning and development process. Such planning and discussions will likely result in changes in the number of hospitals in the Obligated Group over time. As part of its on-going planning and property management functions, the Corporation reviews the use, compatibility and business viability of its operations, and from time to time the Corporation may pursue changes in the use or disposition of its facilities. Likewise, the Corporation occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition of operations or properties which may become part of the Obligated Group in the future, or about the potential sale of some of the operations and properties which are a part of the Obligated Group. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use are held on a frequent, and usually confidential, basis with other parties and may include the execution of nonbinding letters of intent. As a result, it is possible that new hospitals will be added as Obligated Group Members or Designated Group Affiliates in the future, and that the organizations and assets which make up the Obligated Group may change from time to time, subject to the provisions in the Master Indenture and other financing documents which apply to merger, sale, disposition or purchase of assets, or with respect to joining or withdrawing from the Obligated Group.

Currently, the Corporation is affiliated with other nonprofit and for-profit corporations. In certain instances, such affiliates may conduct operations which are of strategic importance to the Corporation, or their operations may subject the Corporation to potential legal or financial liabilities. In some cases, the Corporation may fund the affiliates on a startup or ongoing basis, and this funding may be significant.

### **Antitrust**

Enforcement of the antitrust laws against healthcare providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities and certain pricing or salary setting activities, as well as other areas of activity. In some respects, the application of the federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. Violation of the antitrust laws could be subject to criminal and/or civil enforcement by federal and state agencies, as well as by private litigants. At various times, a Member or Members may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, division of services and use of a hospital's local market power for entry into related healthcare businesses. From time to time, Members are or will be involved with all of these types of activities, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, the Members may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time. A recent U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals and seek treble damages. Hospitals, including the Designated Group Affiliates, regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary healthcare businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case.

The Corporation will work with, rely upon and sometimes invest in medical groups or medical group management companies. If any of these medical groups or management companies is determined to have violated the antitrust laws, the Corporation also may be subject to liability as a joint actor, or the value of any investment in such group or company may be affected.

The Corporation is one of four Indianapolis hospital organizations which received a Civil Investigative Demand on January 21, 2000 ("CID") regarding their Indianapolis facilities from the Antitrust Division of the United States Department of Justice to determine whether there is, has been, or may be a violation of Section 1 of the Sherman Act, 15 U.S.C. §1, by conduct, activities or proposed action resulting in agreements among hospitals having the purpose or effect of unreasonably restricting competition in the sale of health care services to managed care plans in and around Indianapolis. The Corporation is cooperating with the investigation and is in the process of responding to the CID. The Corporation is not aware of any basis upon which it would have liability under federal antitrust laws.

### **Changes in Health Care Delivery**

**General.** Efforts by health insurers and governmental agencies to limit the cost of hospital service and to reduce utilization of hospital facilities may reduce future revenues. Through various combinations of changes in governmental policy, advances in technology and treatment, increased costs of operations, increased charges, changes in payment methodology, utilization review, and greater competition, inpatient hospitalizations have generally decreased over the past five years. It is uncertain whether that decrease will continue, and to what extent the factors mentioned above will continue to create operational, and economic uncertainty for hospitals in the United States. It is now generally acknowledged that hospital operations pose greater complexity and higher risk than in years past, and this trend may continue. It is not practical to enumerate each and every operating risk which may result from hospital

operations, and certain risks or combinations of risks which are now unanticipated may have material adverse results in the future. Certain risks relating to hospital operations are enumerated below.

**Labor Relations.** Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trades. As of the date of issuance of the Series 2000 Bonds, no employees of the Facilities or the Corporation will be covered by collective bargaining agreements, although an organizing campaign aimed at the nursing staff at the St. Margaret Mercy Facilities is currently underway by the Service Employees International. Similar organizing campaigns could also be undertaken at other facilities, and the success of the current campaign, or any potential future campaign cannot be predicted.

**Physician Contracting and Relations.** The Corporation expects to enter into a wide variety of relationships with physicians. Many of these relationships may be of material importance to the operations of the facilities operated by the Corporation, and, in an increasingly complex legal and regulatory environment, these relationships pose a variety of legal or business risks. Increasingly, the focus of these relationships is a physician practice group or independent practice association that concentrates a large number of physicians in a limited number of contracting organizations. This increases the importance of these contracts and increases the risk of the loss of one or more such contracts.

The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have such membership or privileges curtailed, denied or revoked, often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. All hospitals, including those to be operated by the Corporation, are subject to such risks.

Certain contracts between hospitals and physicians may be void or voidable by challenge from one of its participants in situations where a hospital exercises certain aspects of control over a physician's practice or where the physician is in a position to refer patients to the hospital and is compensated based on a percentage of revenues formula. In many cases, the determination of the validity of such agreements and the materiality of their loss is dependent on factual circumstances and on the relative position of the parties at a particular time. Consequently, the outcome cannot be determined with precision in advance of a dispute or controversy with respect to the relationship. Management of the Corporation is not aware of specific, related controversies with respect to the hospitals to be operated by the Corporation that it believes would lead to the loss of a contractual relationship which would be material with respect to the operation or financial condition of the Corporation.

Certain contracts entered into with physicians or physician groups create an exclusive relationship. With increased competition among healthcare providers and the increasing frequency of the application of antitrust principles in healthcare, such exclusive relationships are subject to challenge, generally by other physicians competing with those who have the exclusive relationship. Absent facts which may arise from a specific challenge or controversy, the validity of such agreements cannot in many cases be accurately determined, nor can the materiality of the loss of the exclusive relationship to a hospital or the damages, if any, which might be assessed against the parties to it. The Corporation may have exclusive relationships of the type described. As of the date hereof, management of the Corporation is not aware of specific controversies which management believes might lead to the loss of an exclusive contractual relationship, or to an award of damages, that would be material with respect to the operation or financial condition of the Corporation.

**Technology and Services.** Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient healthcare delivery may reduce utilization and revenues of the Obligated Group Members in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated, and costly, equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the Obligated Group Members to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance such acquisitions or operations.

**Competition.** Increased competition from a wide variety of potential sources, including, but not limited to, other hospitals, inpatient and outpatient healthcare facilities, clinics, physicians and others, could adversely affect the utilization and/or revenues of the Obligated Group Members. Existing and potential competitors may not be subject to various restrictions applicable to the Obligated Group Members, and competition may, in the future, arise from new sources not currently anticipated or prevalent.

#### **Licensing, Surveys, Investigations and Audits**

Health facilities, including the Facilities, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors and the Joint Commission on Accreditation of Healthcare Organizations and the American Osteopathic Association. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Corporation. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could result in a loss or reduction in the scope of licensure, certification or accreditation of the hospitals to be operated by the Corporation, or could reduce the payment received or require repayment of amounts previously remitted.

Management of the Corporation currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations, nor does it anticipate a reduction in third-party payments from such events which would materially adversely affect the operations or financial condition of the Corporation. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the Corporation's ability to operate all or a portion of its health facilities, and, consequently, could have a material and adverse effect on the Corporation's ability to make the debt service payments relating to the Series 2000 Bonds.

#### **Environmental Laws and Regulations**

Healthcare providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, provider operations or facilities and properties owned or operated by providers. Among the types of regulatory requirements faced by healthcare providers are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the provider; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements.

In their role as owners and/or operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that have come to be located on hospital property, including any such substances that may have migrated off the property. Typical healthcare provider operations include, but are not limited to, in various combinations, the handling, use, treatment, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive and flammable materials, wastes, pollutants or contaminants. As such, healthcare provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Corporation and any future Members of the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Members of the Obligated Group.

At the present time, management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues with respect to the hospitals to be operated by the Corporation, or any instance of contamination, which, if determined adversely to the Corporation or with respect to the hospitals to be operated by the Corporation, would have material adverse consequences to the Corporation.



## **Amendments**

Certain amendments to the Indenture may be made with the consent of the holders of not less than a majority of the principal amount of the outstanding Series 2000 Bonds. Certain amendments to the Master Indenture may be made with the consent of the holders of not less than a majority of the principal amount of Obligations Outstanding under the Master Indenture which are affected by the amendment. Such amendments may adversely affect the security of the Series 2000 Bondholders. With respect to amendments to the Master Indenture, the holders of the requisite percentage of outstanding obligations may be composed wholly or partially of the holders of additional Obligations. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE -- Amendments and Supplements" in Appendix D.

## **Factors That Could Affect the Enforceability of the Master Indenture, Loan Agreement and the 2000 Obligations**

The legal right and practical ability of the Trustee to enforce its rights and remedies against the Obligated Group Members under the Loan Agreement and related documents and of the Master Trustee to enforce its rights and remedies against the Obligated Group Members under the 2000 Obligations may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights or laws relating to charitable trusts. In addition, the Trustee's and the Master Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations expressed herein, including those imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and laws relating to fraudulent conveyances.

The joint and several obligations described herein of Members of the Obligated Group to make payments of debt service on Obligations issued under the Master Indenture and the obligation of each Member of the Obligated Group to cause Designated Group Affiliates to transfer funds to such Member for the purpose of making debt service payments on Obligations, the proceeds of which Obligations were not loaned or otherwise made available to or used for the benefit of such Obligated Group Member or Designated Group Affiliate (including transfers in connection with voluntary dissolution or liquidation) may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles and (2) such payments (i) are requested to make payments on any Obligations which are issued for a purpose which is not consistent with the charitable purposes of the organization from which such payments are requested or which are issued for the benefit of any entity other than a tax-exempt organization; (ii) are requested to be made from any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the member from which such payment is requested; (iv) are requested to be made pursuant to any loan violating applicable usury laws or (3) the transfer of funds from a Designated Group Affiliate to provide for such payment or the payment of such Obligations by another Member of the Obligated Group may contradict charitable trust principles, which vary from jurisdiction to jurisdiction applicable to such Designated Group Affiliate or Obligated Group Member.

A Member may not be required to make a payment to provide for the payment of an Obligation, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member to the extent that such transfer would render the Member insolvent or which would conflict with, not be permitted by or which is subject to recovery for the benefit of other creditors of such member under applicable fraudulent conveyance, bankruptcy or moratorium laws. There is no clear precedent in the law as to whether such transfers from a Member in order to pay debt service on the Obligations may be voided by a trustee in bankruptcy in the event of bankruptcy of the member, or by third-party creditors in an action brought pursuant to state fraudulent transfer or fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent transfer or fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or applicable state fraudulent transfer or fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group to pay debt service on Obligations for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that the member of the Obligated Group is analogous to a guarantor of the debt of the Member who directly benefitted from the borrowing and that sufficient consideration for the Member's guaranty was not received and that the incurrence of such obligation has rendered or will render the Member insolvent or the Member is or will thereby become undercapitalized.

There exist, in addition to the foregoing, common law authority and authority under applicable state statutes pursuant to which the courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion pursuant to a petition of the Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses. See "SECURITY FOR THE BONDS -- The Master Indenture."

**The principles of bankruptcy, insolvency, reorganization, fraudulent conveyance and moratorium and other similar laws affecting creditors' rights or laws relating to charitable trusts are also applicable to limit the Corporation's ability to compel the Designated Group Affiliates to comply with the provisions of the Master Indenture.**

#### **Potential Effects of Bankruptcy**

If the Corporation or any future Member of the Obligated Group were to file a petition for relief (or if a petition were filed against any Member of the Obligated Group) under the Federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member of the Obligated Group, and its property. If the bankruptcy court so ordered, such Member's property, including its accounts receivable and proceeds thereof, could be used for the benefit of such Member of the Obligated Group despite the claims of its creditors.

In a bankruptcy proceeding, such Member of the Obligated Group could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or the rights of any class of creditors, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the debtor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

#### **Cost Overruns and Cash Commitments**

The Corporation expects to undertake construction projects in the future. Numerous risks are involved in any such projects, including delays and increased costs due to strikes, shortages of materials, adverse weather conditions, changes in project design, inflation and numerous other factors. Risks may be particularly acute where projects must be undertaken on a cost-plus basis and without precisely defined parameters, as in the development of new technologies. Therefore, there can be no assurances that the costs of completing the projects currently pursued or planned by the Members of the Obligated Group, will not greatly increase due to these and other factors.

#### **General Litigation, Malpractice Claims and Insurance**

**Litigation.** As with most multi-hospital systems, there may be, at any point in time, a number of medical malpractice actions filed or pending against the Corporation or any future Obligated Group Members. Generally, these will be paid or settled from insurance and/or self-insurance coverage, and some will not be pursued by plaintiffs.

However, certain actions may seek punitive or other damages, which may not be covered by insurance. Litigation also arises from the corporate and business activities of the Corporation and any future Obligated Group Members, from their status as major employers, or as a result of medical staff peer review or the denial of medical staff privileges. A recent U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals and seek treble damages. As with medical malpractice, many of these risks are covered by insurance or self-insurance, but some are not. In the unlikely event that a substantial number of uncovered claims were determined adversely to the Corporation or any future Members of the Obligated Group who are defendants in such claims, and substantial monetary damages were awarded in each, there could be a material adverse effect on the Obligated Group's financial condition. See "ABSENCE OF MATERIAL LITIGATION" herein.

**Indiana Malpractice Claims and Insurance.** During 1975, the State of Indiana enacted the Medical Malpractice Act, Indiana Code 27-12-1-1. et seq. (the "Medical Malpractice Act"), which limits the damage liability for malpractice claims against health care providers qualified as providers under the Medical Malpractice Act. The Corporation is qualified as a provider under the Medical Malpractice Act. In 1998, the Indiana legislature enacted several changes to the Medical Malpractice Act. Effective July 1, 1999, the amount of the surcharge will be established by the Department of Insurance based on an actuarial program. The amount must be sufficient to cover but may not exceed the actuarial risk posed to the Fund by the hospitals operated by the Corporation. For malpractice occurring after December 31, 1989, and before July 1, 1999, the Medical Malpractice Act provides for a maximum recovery of \$750,000 per claim. For malpractice occurring after June 30, 1999, the Medical Malpractice Act provides for a maximum recovery of \$1,250,000. Until July 1, 1999, a health care provider is liable for up to \$100,000 of the maximum recovery. The excess is paid by the Fund. Beginning July 1, 1999, the provider's share increases to \$250,000. The effect of this law is to require the hospitals operated by the Corporation to carry insurance of \$100,000 per occurrence and \$3,000,000 in the annual aggregate for the patient professional liability risks. Each hospital which is part of the Corporation will increase its insurance when its liability exposure increases under the Medical Malpractice Act. The Corporation believes its risk management programs embody a mix of broad insurance coverages and retention programs that reflect an appropriate and prudent approach toward the protection of the institution.

#### **Obligations Unsecured**

The Obligations of the Corporation, any future Members of the Obligated Group and the Designated Group Affiliates under the Master Indenture are not secured by any revenues or any pledge of, mortgage on or security interest in any assets of the Corporation, any such future Members of the Obligated Group or the Designated Group Affiliates and may be affected by various matters, including: (i) federal bankruptcy laws and other creditors' rights laws, (ii) rights of third parties in cash, securities and instruments not in possession of the Master Trustee, including accounts and general intangibles converted to cash, (iii) rights arising in favor of the United States of America or any agency thereof, (iv) present or future prohibitions against assignment in any federal statutes or regulations, (v) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and the rights of donors of property, (vi) claims that might obtain priority if a security interest or lien is not granted or continuation statements are not filed in accordance with applicable laws; (vii) the rights of holders of prior perfected security interests in equipment and other goods owned by the Corporation, any future Members of the Obligated Group or the Designated Group Affiliates and in the proceeds from the sale of such property, (viii) statutory liens, and (ix) the rights of parties secured by Permitted Encumbrances.

#### **Other Factors**

Additional factors which may affect future operations, and therefore revenues, of the Corporation and any future Obligated Group Members include the following, among others:

- (i) Shortages of nurses or other healthcare providers;
- (ii) A change in the federal income tax or other federal, state or local laws to require the Corporation or the Designated Group Affiliates to render substantially greater services without charge or at a reduced charge;
- (iii) Employee strikes and other adverse labor actions or disputes with members of the medical staff; and

(iv) Natural disasters, including floods and earthquakes, which could damage the Corporation's or the Designated Group Affiliates' facilities or otherwise impair the operations of the Corporation or the Designated Group Affiliates and the general revenues from the Corporation's or the Designated Group Affiliates' facilities.

(v) Reduced demand for the services of the Corporation that might result from decreases in population in their respective service areas.

(vi) Increased unemployment or other adverse economic conditions in the service areas of the Corporation which would increase the proportion of patients who are unable to pay fully for the cost of their care.

(vii) Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Corporation.

(viii) Regulatory actions which might limit the ability of the Corporation or the Designated Group Affiliates to undertake capital improvements to its respective facilities or develop new institutional health services.

### **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature, to the knowledge of their officers, now pending or threatened against the Corporation restraining or enjoining the issuance, sale, execution or delivery of the Series 2000 Bonds, or in any way contesting or affecting the validity of the Series 2000 Bonds.

As with most healthcare corporations, the Corporation is subject to certain legal actions which, in whole or in part, are not or may not be covered by insurance or self-insurance because of the type of action or damages requested (e.g., punitive damages), because of a reservation of rights by an insurance carrier or self-insurance program, or because the action has not proceeded to a stage which permits full evaluation. Since such actions either claim punitive damages which could become a liability of the Corporation and/or state or threaten causes of action which may not be covered by insurance or self-insurance, insurers for the Corporation and the self-insurance program have not provided assurance of coverage, and to the extent any cases have not been served, counsel has not been retained to evaluate them.

No litigation is now served upon or, to the knowledge of the Corporation, otherwise pending or threatened against the Corporation which in the aggregate would have a material adverse effect on the Corporation's operations or condition, financial or otherwise.

The above statements should be read in conjunction with related general risks descriptions set out in "BONDHOLDERS' RISKS -- General Litigation, Malpractice Claims and Insurance."

### **TAX MATTERS**

In the opinion of Baker & Daniels, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2000 Bonds is excludable from gross income under Section 103 of the Code for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Series 2000 Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Indiana Authority, the Illinois Authority and the Corporation with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the Indiana Series 2000 Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue. In the opinion of Bond Counsel, under existing law, interest on the Indiana Series 2000 Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax. In the opinion of Bond Counsel, under existing law, interest on the Illinois Series 2000 Bonds is not exempt from present State of Illinois income taxes. See Appendix E hereto for the forms of the approving opinions of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2000 Bonds as a condition to the exclusion from gross income of interest on the Series 2000 Bonds for federal income tax purposes. The Indiana Authority, the Illinois Authority and the Corporation will covenant not to take any action nor fail to take

any action, within their respective power and control, with respect to the Series 2000 Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Series 2000 Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). The Indenture, the Loan Agreement and certain certificates and agreements to be delivered on the date of delivery of the Series 2000 Bonds establish procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Indenture if interest on the Series 2000 Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the issue date of Series 2000 Bonds.

The interest on the Series 2000 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2000 Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in I.C. 6-5.5) which, in general, are all corporations which are transacting the business of a financial institution in the State of Indiana. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisors regarding the impact of this legislation on their ownership of the Series 2000 Bonds.

Although Bond Counsel will render an opinion that interest on the Indiana Series 2000 Bonds is excludable from federal gross income and exempt from certain State of Indiana taxes and will render an opinion that interest on the Illinois Series 2000 Bonds is excludable from federal gross income, the accrual or receipt of interest on the Series 2000 Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and a Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, "S" corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Series 2000 Bonds. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Series 2000 Bonds should consult their own tax advisors with regard to other tax consequences of owning the Series 2000 Bonds.

## **LEGAL MATTERS**

Legal matters incident to the issuance of the Series 2000 Bonds are subject to the unqualified approving opinion of Baker & Daniels, Indianapolis, Indiana, Bond Counsel. Certain other legal matters will be passed upon for the Indiana Authority by its counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana, for the Illinois Authority by its counsel, Burke Burns & Pinelli, Ltd., Chicago, Illinois, for the Corporation by its counsel, Buchanan Ingersoll Professional Corporation, Pittsburgh, Pennsylvania, and for the Underwriter by its counsel, Ice Miller Donadio & Ryan, Indianapolis, Indiana.

## **FINANCIAL ADVISOR**

Kaufman, Hall & Associates, Inc., Northfield, Illinois, was engaged by the Corporation to provide financial advisory services for the development and implementation of a capital financing plan for the Corporation. Kaufman Hall is a national consulting firm which acts as capital advisor to health care organizations particularly in the areas of short and long term debt financings, joint ventures and overall capital planning.

## **RATINGS**

Moody's Investors Service and Fitch IBCA, Inc. have assigned ratings to the Credit Group of Aa3 and AA, respectively. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The Corporation furnished to the rating agencies certain information and material concerning the

Series 2000 Bonds. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. The Corporation and the Underwriter have undertaken no responsibility either to bring to the attention of the Holders of the Series 2000 Bonds any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Series 2000 Bonds.

## **CONTINUING DISCLOSURE**

The following is a brief summary of certain provisions of the Continuing Disclosure Agreement of the Corporation and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Continuing Disclosure Agreement, a copy of which is available upon request from the Corporation.

### **Annual Financial Information Disclosure**

The Corporation (on behalf of itself and the Designated Group Affiliates) covenants that it will disseminate its Annual Information (described below) and its audited financial statements, to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") then recognized by the Securities and Exchange Commission for purposes of the Rule and to any public or private repository designated by the State of Indiana as the state depository (the "SID") and recognized as such by the Securities and Exchange Commission for purposes of the Rule. The Corporation is required to deliver such information so that such entities receive the information by the dates specified in the Continuing Disclosure Agreement.

"Annual Information" means information of the type include in Appendix A of this Official Statement as follows:

FINANCIAL AND STATISTICAL INFORMATION — Utilization  
FINANCIAL AND STATISTICAL INFORMATION — Sources of Patient Revenue

### **Events Notification; Material Events Disclosure**

The Corporation covenants that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB") and to the SID, if any, and to the Trustee in a timely manner the disclosure of the occurrence of any of the events described below with respect to the Series 2000 Bonds that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. The events are:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Series 2000 Bonds;
7. modifications to rights of holders of the Series 2000 Bonds;
8. bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture);
9. defeasances;
10. release, substitution or sale of property securing repayment of the Series 2000 Bonds; and
11. rating changes.

### Consequences of Failure of the Corporation to Provide Information

The Corporation shall give notice in a timely manner to each NRMSIR or to the MSRB and Trustee and to the SID, if any, of any failure to provide disclosure of Annual Information and audited financial statements when the same are due under the Continuing Disclosure Agreement.

In the event of a failure of the Corporation to comply with any provision of the Continuing Disclosure Agreement, the Beneficial Owner of any Series 2000 Bonds may seek specific performance by court order, to cause the Corporation to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture, the Master Indenture, the 2000 Obligations or the Loan Agreement, and the sole remedy under the Continuing Disclosure Agreement shall be an action to compel performance. Neither the Corporation nor any officer, director, employee or agent thereof shall be liable for any claims for monetary damages or attorney's fees whatsoever for any breach of the Continuing Disclosure Agreement.

### Modification

Notwithstanding any other provision of the Continuing Disclosure Agreement, the Corporation and the Trustee may amend or modify the Continuing Disclosure Agreement, if either:

- (1) (a) the amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Corporation, or type of business conducted;
  - (b) the Continuing Disclosure Agreement, as so amended or modified would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;
  - (c) such amendment or modification does not materially impair the interests of the Beneficial Owners of the Series 2000 Bonds, as determined either by parties unaffiliated with the Authority or the Corporation (such as the Trustee or nationally recognized bond counsel) or an approving vote of the holders of the requisite percentage of Outstanding Series 2000 Bonds as required under the Indenture at the time of such amendment or modification; or
- (2) such amendment or modification (including an amendment or modification which rescinds the Continuing Disclosure Agreement) is permitted by the Rule, as then in effect.

### Termination of Continuing Disclosure Agreement

The Continuing Disclosure Agreement shall terminate upon the earlier of (i) the date of the last payment of principal or redemption price, if any, and interest to accrue on, all the Series 2000 Bonds or (ii) the date the Series 2000 Bonds are defeased pursuant to the provisions of the Indenture.

### Dissemination Agent

The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

## **UNDERWRITING**

The Underwriter has agreed to purchase the Indiana Bonds at a purchase price of \$104,464,500. The difference between the par amount of the Indiana Bonds and the purchase price is comprised of an underwriting discount of \$535,500. The Underwriter has agreed to purchase the Illinois Bonds at a purchase price of \$39,796,000. The difference between the par amount of the Illinois Bonds and the purchase price is comprised of an underwriting discount of

\$204,000. The Bond Purchase Agreements provide that the Underwriter will purchase all of the Series 2000 Bonds of such issue, if any are purchased, and contains the agreement of the Corporation to indemnify the Underwriter and the Indiana Authority and the Illinois Authority against certain liabilities.

### **FINANCIAL STATEMENTS**

The consolidated financial statements of Sisters of St. Francis Health Services, Inc. for the years ended December 31, 1999, 1998 and 1997 have been audited by PricewaterhouseCoopers LLP, independent auditors, as indicated in their reports thereon and included in Appendix C.

### **MISCELLANEOUS**

The foregoing and subsequent summaries and descriptions of provisions of the Series 2000 Bonds, the Indenture, the Loan Agreement, the Master Indenture and the 2000 Obligations and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement.

This Official Statement has been approved by the Indiana Authority and the Illinois Authority and executed by the Corporation. This Official Statement is not to be considered as a contract or agreement between the Indiana Authority, the Illinois Authority or the Corporation and the purchasers or Holders of any of the Series 2000 Bonds.



SISTERS OF ST. FRANCIS HEALTH  
SERVICES, INC.

By: /s/ Sister M. Jane Marie Klein  
Chairperson of the Board of Directors

**APPENDIX A**  
**INFORMATION CONCERNING**  
**SISTERS OF ST. FRANCIS HEALTH SERVICES, INC.**

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## GENERAL

Sisters of St. Francis Health Services, Inc. (the "Corporation") is a nonprofit corporation which provides health care and related services to the communities in Indiana and Illinois in which it currently operates. The Corporation is exempt from federal income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code (a "501(c)(3) Entity"). The Corporation was formed in 1974 to succeed by merger to the ownership and operation of certain existing hospitals which were under the sponsorship of Sisters of St. Francis of Perpetual Adoration. The corporate office of the Corporation is located in Mishawaka, Indiana. The Corporation and its related corporations and subsidiaries are sometimes referred to herein as the "System".

The System primarily operates in four markets indicated on the map which appears on the back of the cover page to this Official Statement. These four markets include: (i) the Central Indiana Market which is comprised of Beech Grove, Indianapolis, Mooresville and Crawfordsville, Indiana (the "Central Indiana Market"), (ii) the Lafayette Market which is comprised of Lafayette, Indiana (the "Lafayette Market"), (iii) the Northwestern Indiana Market which is comprised of Crown Point, Michigan City, Hammond and Dyer, Indiana (the "Northwestern Indiana Market") and (iv) the Southern Chicagoland Market which is comprised of Olympia Fields and Chicago Heights, Illinois (the "Southern Chicagoland Market"). The System continually evaluates acquisition opportunities in accordance with its strategic goal to become a dominant provider in each of its markets and maintain an acute-care focus in community-based delivery systems.

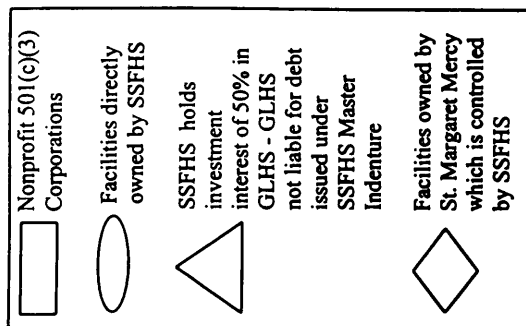
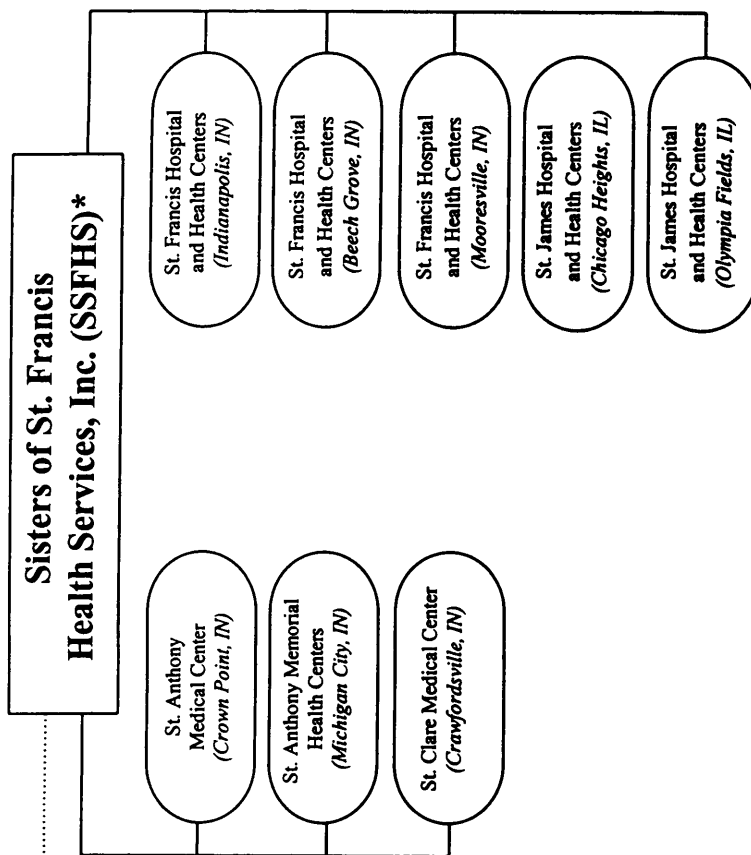
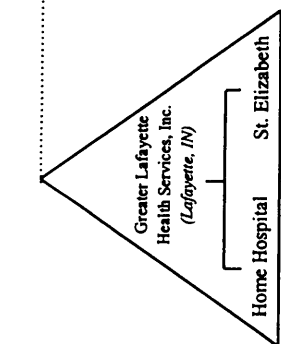
The Corporation has a Class A Member and a Class B Member. The Class A Member consists of the Provincial Superior of the Sisters of St. Francis of Perpetual Adoration (the "Congregation") and her Council and of the Provincial Superior of the Sisters of the Resurrection ("Sisters of the Resurrection") and her Council. The Class B Member consists of all Sisters of the Provincial Council of the Sisters of the Eastern Province of the Congregation (the "Province") who are in perpetual vows. See the further information herein under the caption, "CORPORATE ORGANIZATION."

Capitalized terms not defined herein are defined elsewhere in this Official Statement.

**The Congregation, the Sisters of the Resurrection and the Province are not part of the Obligated Group, are not parties to the Master Indenture or the Loan Agreement, and are not liable, directly or indirectly, for payments with respect to debt service on the Series 2000 Bonds or the 2000 Obligations. The accounts of the Congregation, the Sisters of the Resurrection and the Province are not included in the financial statements included as Appendix C to this Official Statement. Accordingly, the revenues and assets of such entities are not available to the Corporation for purposes of making, nor do such entities have any independent obligation to make, debt service payments under the Loan Agreement, including payments on the 2000 Obligations, or on the Series 2000 Bonds.**

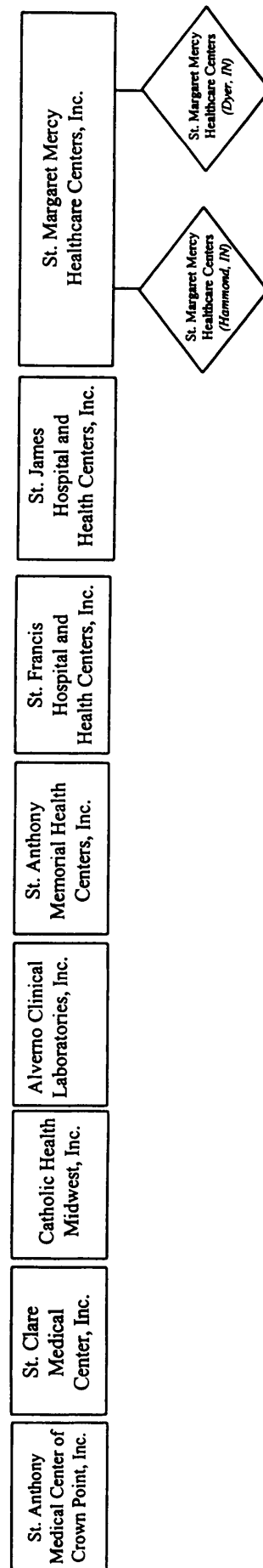
# **Sisters of St. Francis Health System** **Facilities Owned by Obligated Group and Designated Group Affiliates** **Expected as of May 5, 2000 (Issue Date)**

## **Obligated Group**



\* Sole Member of Obligated Group

## **Designated Group Affiliates**



## **THE OBLIGATED GROUP AND DESIGNATED GROUP AFFILIATES**

### **Obligated Group**

**The Corporation will be the only member of the Obligated Group upon the issuance of the Series 2000 Bonds. There are currently no plans for additional Members to join the Obligated Group. The diagram on the preceding page sets forth the Members of the Obligated Group and the Designated Group Affiliates and the facilities owned by such entities as expected upon the date of issuance of the Series 2000 Bonds ("Issue Date").**

On the Issue Date, the Corporation will directly own eight health center campuses which include St. Francis Hospital and Health Centers ("St. Francis-Beech Grove/Indianapolis/Mooresville Facilities" and individually, the "St. Francis-Beech Grove/Indianapolis Facilities" and the "Mooresville Facilities"), located at three campuses in Beech Grove, Indianapolis and Mooresville, Indiana; St. Anthony Memorial Health Centers ("St. Anthony Memorial Facilities"), located in Michigan City, Indiana; St. James Hospital and Health Centers ("St. James-Chicago Heights/Olympia Fields Facilities" and individually, the "Chicago Heights Facilities" and the "Olympia Fields Facilities"), located at two campuses in Chicago Heights and Olympia Fields, Illinois; St. Anthony Medical Center of Crown Point (the "St. Anthony Medical Center-Crown Point Facilities") located in Crown Point, Indiana and St. Clare Medical Center (the "St. Clare Facilities") located in Crawfordsville, Indiana.

On the Issue Date, the Corporation is refinancing certain indebtedness (the St Clare Notes, the Olympia Fields Notes and the Mooresville Notes all as hereinafter defined and collectively referred to herein as the "Acquisition Notes") incurred to purchase the St. Clare Facilities, the Olympia Fields Facilities and the Mooresville Facilities (the refinancing of the Acquisition Notes and the Mooresville Transaction and the Olympia Fields Transaction are referred to herein as the "2000 Transactions"). See "ST. CLARE, OLYMPIA FIELDS AND MOORESVILLE TRANSACTIONS" in this Appendix A. For information on the expected financial impact of the 2000 Transactions see "FINANCIAL AND STATISTICAL INFORMATION - Expected Financial Impact of the 2000 Transactions."

In addition, in 1999, the Corporation acquired the St. Anthony Medical Center-Crown Point Facilities (the "SAMC Transaction") and sold two of its eldercare facilities (the "Delphi/Louisville Eldercare Transaction"), which consisted of St. Elizabeth Healthcare Center in Delphi, Indiana and Franciscan Health Care Center in Louisville, Kentucky (the "Delphi/Louisville Eldercare Facilities"). The Corporation sold its third eldercare facility and assisted living facility, St. James Manor and St. James Villas (the "Crete Facilities") located in Crete, Illinois, effective on April 16, 2000 (the "Crete Transaction" and together with the Delphi/Louisville Eldercare Transaction, the "Eldercare Transaction"). See "OTHER RECENT TRANSACTIONS - FSCSC Transactions" in this Appendix A. (The Delphi/Louisville Eldercare Facilities and the Crete Facilities are referred to herein as the "Corporate Eldercare Facilities").

Finally, in 1999, the Corporation transferred substantially all of the assets of St. Elizabeth Medical Center (the "Lafayette Transaction") to Greater Lafayette Health Services, Inc. ("GLHS") in which the Corporation holds a 50% membership interest. See "OTHER RECENT TRANSACTIONS - Greater Lafayette Health Services, Inc." in this Appendix A.

**The Corporation has pursued a number of strategic initiatives over the past few years which have made significant changes to the number and type of facilities owned and operated by the Corporation and its affiliates. The financial and statistical information in this Appendix A and the financial statements set forth in Appendix C reflect the activities of various facilities which are no longer owned by the Corporation or any Designated Group Affiliate. See "OTHER RECENT TRANSACTIONS" in this Appendix A.**

**Certain historical statistical data presented in this Appendix A will reflect the activities of the St. Francis-Beech Grove/Indianapolis Facilities, the St. Anthony Memorial Facilities, the Chicago Heights Facilities, the St. Anthony Medical Center-Crown Point Facilities, the St. Clare Facilities and the St. Margaret Mercy Facilities (as hereinafter defined) which consist of all facilities owned by the Corporation on December 31, 1999 and facilities of the Designated Group Affiliates except for the Mooresville Facilities and the Olympia Fields Facilities (which will be referred to herein collectively as the "1999 Health Center Facilities"). See Appendix B for certain additional historical data with respect to the St. Anthony Medical Center-Crown Point Facilities and the St. Clare Facilities and for historical data for the Olympia Fields Facilities and the Mooresville Facilities. The Obligated Group and the Designated Group Affiliates are referred to herein as the "Credit Group".**

#### **Designated Group Affiliates**

**On the Issue Date, St. Margaret Mercy Healthcare Centers, Inc. ("St. Margaret Mercy"), St. Francis Hospital and Health Centers, Inc. ("St. Francis-Central Indiana"), St. Anthony Memorial Health Centers, Inc. ("St. Anthony Memorial"), St. James Hospital and Health Centers, Inc. ("St. James"), Catholic Health Midwest, Inc. ("CHM"), Alverno Clinical Laboratories, Inc. ("Alverno Lab"), St. Anthony Medical Center of Crown Point, Inc. ("SAMC") and St. Clare Medical Center, Inc. ("St. Clare") will be the only Designated Group Affiliates.**

The Corporation is affiliated with St. Margaret Mercy, a nonprofit corporation and 501(c)(3) Entity which owns both campuses of St. Margaret Mercy Healthcare Centers located in Hammond and Dyer, Indiana, respectively ("St. Margaret Mercy Facilities").

Effective at the close of business on December 31, 1991, and pursuant to the Agreement to Transfer Hospitals (the "Transfer Agreement"), the Corporation transferred the assets and liabilities of St. Margaret Hospital and Health Centers, Hammond, Indiana, an operating division of the Corporation at that time, to St. Margaret Mercy. The Sisters of Mercy Health Corporation of Farmington Hills, Michigan as known at that time, and now known as Mercy Health Services

("MHS"), transferred the assets and liabilities of Our Lady of Mercy Hospital, Dyer, Indiana, an operating division of MHS at that time, to St. Margaret Mercy. The Corporation and MHS are the members of St. Margaret Mercy. The Corporation is empowered to appoint and remove eleven of the fourteen elected directors of St. Margaret Mercy at any time with or without cause.

In connection with the Transfer Agreement, St. Margaret Mercy is obligated under the terms of a Contributions and Funding Agreement, dated December 31, 1991 ("Funding Agreement") subject to St. Margaret Mercy cash flows, as defined, to make annual grants to the members. The annual grants cannot exceed a defined "base grant amount." Under certain circumstances, MHS and the Corporation could be required to make contributions to St. Margaret Mercy. For further information, refer to the notes to the financial statements in Appendix C. The management of the Corporation expects that the obligations of St. Margaret Mercy under the Funding Agreement will not impair its ability to fulfill the obligations imposed by becoming a Designated Group Affiliate. The financial statements set forth in Appendix C include the activities of St. Margaret Mercy.

St. Margaret Mercy has a 40% membership interest in The Community Village, Inc. ("Community Village"). Community Village borrowed \$26,230,000 in September, 1997, for the construction of a senior living community, to be known as Hartsfield Village, in Munster, Indiana. St. Margaret Mercy has committed approximately \$6 million of equity to Community Village for the project and potentially an additional amount, in the form of a guaranty, not to exceed \$800,000. The Corporation has no other obligation relating to Community Village or the debts or obligations referred to above. Management of the Corporation expects that the financial obligations of St. Margaret Mercy with respect to this project will not impair its ability to fulfill the obligations imposed by becoming a Designated Group Affiliate. The financial statements set forth in Appendix C do not include the activities of Community Village. The Corporation's investment in Community Village is accounted for in the Corporation's financial statements using the equity method.

The Corporation is the sole corporate member of St. Francis-Central Indiana, St. Anthony Memorial, SAMC, St. Clare and St. James. The Corporation owns the St. Francis-Beech Grove/Indianapolis/Mooresville Facilities, the St. Anthony Memorial Facilities, the St. James-Chicago Heights/Olympia Fields Facilities, the St. Clare Facilities and the St. Anthony Medical Center-Crown Point Facilities; however, such corporations have been delegated certain management and operational responsibilities for the respective facilities. In each case, the Corporation has reserved the right to approve certain actions of the respective operating corporation such as: incurrence of non-budgeted capital expenditures in excess of a limit, incurrence of debt, major capital improvement projects, merger or corporate reorganization, disposition of assets, or approving or amendment of bylaws or articles. Although St. Francis-Central Indiana, St. Anthony Memorial, SAMC, St. Clare and St. James currently do not own the assets of the respective facilities, the Corporation may transfer those assets to the respective corporation at some time in the future. The financial statements set forth in Appendix C include the activities of the St. Francis-Beech Grove/Indianapolis Facilities, the St. Anthony Memorial Facilities, the St. Anthony Medical Center-Crown Point Facilities (for the ten month period beginning March 1, 1999 and ending December 31, 1999),

the St. Clare Facilities (for the three month period beginning October 1, 1999 and ending December 31, 1999) and the Chicago Heights Facilities but do not include the Mooresville Facilities or the Olympia Fields Facilities, which were acquired subsequent to December 31, 1999.

The Corporation also is affiliated with CHM, a nonprofit corporation and 501(c)(3) Entity. CHM provides information services for the System. CHM sold its receivables services division to Mutual Hospital Services, Inc. effective October 1, 1999 and transferred its group purchasing division to the Corporation effective January 1, 2000. See the information under the caption "MANAGEMENT'S DISCUSSION - Shared Services" for a description of CHM. The board of directors of the Corporation are the members of CHM and elect its board of directors. The financial statements set forth in Appendix C include the activities of CHM.

The Corporation is the sole member of Alverno Lab, a nonprofit corporation. Alverno Lab was formed to direct, operate, maintain and manage the regional laboratory facility in Hammond, Indiana ("Alverno Clinical Laboratory") as well as certain on site laboratories in the System's health care centers. Alverno Lab was incorporated on November 13, 1998 and is a 501(c)(3) Entity. Effective April 1, 1999, Alverno Lab began operations. The financial statements set forth in Appendix C include the activities of Alverno Lab for the period beginning April 1, 1999 and ending December 31, 1999.

### **Other Related Corporations**

The Corporation is affiliated with Alverno Health Corporation ("AHC") and its controlled entities (AHC and its controlled entities are referred to collectively as "Alverno"), which are all nonprofit corporations and 501(c)(3) Entities (except for Midwest Health Ventures, Inc. which is a for profit entity). Effective June 1, 1999, Midwest Health Ventures, Inc. (formerly known as Chicago Heights Health Ventures, Inc.) acquired certain assets and rights from MedPartners Physician Management, L.P., including, but not limited to, the rights to provide business management services to Suburban Heights Medical Center, S.C. ("SHMC") pursuant to an Amended and Restated Clinic Services Agreement and the rights to provide business management services to an ambulatory surgery center operated by SHMC and its subsidiary Surgicare Center, Inc. pursuant to an Amended and Restated Services Agreement. Alverno, which provides health care related services, is a related entity to the Corporation because both the Corporation and Alverno are under the governance and control of the Province. The Corporation also controls The Hills Insurance Company, Ltd. ("Hills") which is a captive insurance company. The activities and status of Hills are described under the caption "INSURANCE" herein. The Corporation also controls St. Francis Health Care Foundation, Inc. (the "Foundation"), a nonprofit corporation and 501(c)(3) Entity. Additionally, the Corporation owns all the stock in Alverno Construction Corporation ("Alverno Construction"), a for profit entity.

Effective March 1, 1999, the Corporation acquired Franciscan Holding Corporation and its subsidiaries ("FHC"), located in Crown Point, Indiana, which operates physician practices. Effective August 23, 1999, the Corporation controls Franciscan Physician Management Corporation ("FPM"),



located in Michigan City, Indiana which operates a clinic focusing on industrial medicine. **Alverno, Hills, Alverno Construction, the Foundation, FHC and FPM will not be members of the Obligated Group or Designated Group Affiliates.** The audited financial information for the fiscal year ending December 31, 1997 includes the activities of Hills but not Alverno, Alverno Construction, the Foundation, FHC or FPM. Beginning with the fiscal year ending December 31, 1998, the audited financial information includes Hills, Alverno, Alverno Construction and the Foundation. The audited financial information for the fiscal year ending December 31, 1999 includes all entities described in the previous sentence and FHC and FPM.

## SUMMARY OF RECENT TRANSACTIONS

The activities summarized below include activities initiated by the Corporation to consolidate and strengthen its position in the Central Indiana Market, the Lafayette Market, the Northwestern Indiana Market and the Southern Chicagoland Market. The activities listed below also include certain transactions in which the Corporation sold facilities in accordance with its strategic plans to maintain an acute-care focus and to exit certain markets when the Corporation determines such markets are not financially beneficial for the System.

<u>Location/Effective Date</u>	<u>Transaction</u>
Michigan City, IN July 1, 1997	<ul style="list-style-type: none"><li>• Acquired Memorial Facilities</li><li>• Consolidated operations in Michigan City into one campus</li></ul>
Evanston, IL November 30, 1997	<ul style="list-style-type: none"><li>• Sold St. Francis-Evanston Facilities to Resurrection</li><li>• Established co-sponsorship structure with Resurrection</li><li>• Corporation discontinued operations in Evanston</li></ul>
Memphis, TN November 30, 1997	<ul style="list-style-type: none"><li>• Transferred operations of St. Joseph Facilities to Baptist Memorial Health Care Corporation</li><li>• Transferred ownership of building and land to St. Jude Children's Research Hospital</li><li>• Corporation discontinued operations in Memphis</li></ul>
Michigan City, IN March 30, 1998	<ul style="list-style-type: none"><li>• St. Anthony Memorial purchased Tonn &amp; Blank (a construction company); Tonn &amp; Blank was renamed Alverno Construction</li><li>• Alverno Construction transferred to the Corporation effective January 31, 1999</li></ul>

Lafayette, IN  
January 1, 1999

- GLHS acquired St. Elizabeth Facilities and substantially all assets of Lafayette Home Hospital
- GLHS agreed to pay \$17.3 million of existing Corporation debt as it becomes due
- Control of GLHS is 50-50 between the Corporation and North Central Health Services, Inc.

Northwest Indiana  
March 1, 1999

- Acquired St. Anthony Medical Center-Crown Point Facilities and FHC and subsidiaries

Eldercare Facilities - Delphi, IN and  
Louisville, KY  
March 1, 1999

- Corporation sold eldercare facilities in Delphi, Indiana and Louisville, Kentucky

Hammond, IN  
April 1, 1999

- Alverno Lab operations began

Chicago Heights, IL  
June 1, 1999

- Midwest Health Ventures, Inc. (formerly known as Chicago Heights Health Ventures, Inc.) acquired certain assets and rights from MedPartners Physician Management, L.P., including, but not limited to, the rights to provide business management services to Suburban Heights Medical Center, S.C. ("SHMC") and to provide business management services in connection with an ambulatory surgery center operated by SHMC and its subsidiary Surgicare Center, Inc.

Michigan City, IN  
August 23, 1999

- Franciscan Physician Management Corporation acquired certain equipment, inventory and miscellaneous other assets from Med Watch, P.C. utilized in the operation of a private practice

Crawfordsville, IN  
October 1, 1999

- Acquired Culver Union Hospital from Tenet Healthcare Corporation; Culver Union Hospital renamed St. Clare Medical Center

Olympia Fields, IL  
January 8, 2000

- Acquired Olympia Fields Regional Osteopathic Medical Center from Columbia/HCA Healthcare Corporation; Olympia Fields Regional Osteopathic Medical Center renamed St. James Hospital and Health Centers, Olympia Fields

Mooreville, IN  
January 15, 2000

- Acquired Kendrick Memorial Hospital; Kendrick Memorial Hospital renamed St. Francis Hospital and Health Centers, Mooreville

Michigan City, IN  
February 7, 2000

- Entered into Definitive Agreement with Franciscan Homes and Community Services Inc. ("FHCS") and FSCSC to create a Certified Intermittent Home Health Joint Venture - Contributed home health services of St. Anthony Memorial; entered into Private Duty and Related Operations Purchase Agreement with FHCS pursuant to which the Corporation sold its private duty, hospice, adult day care, companion care, and home aid operations in Lake and La Porte Counties, Indiana

Crete, IL  
April 16, 2000

- Sold eldercare facility and assisted living facility in Crete, IL

## **ST. CLARE, OLYMPIA FIELDS AND MOORESVILLE TRANSACTIONS**

### **St. Clare Transaction**

A portion of the proceeds of the Series 2000 Bonds will be used to refinance the Indiana Authority's Hospital Revenue Notes, Series 1999 (Sisters of St. Francis Health Services, Inc. Project) dated September 29, 1999 in the amount of \$66,900,000 (the "St. Clare Notes"). The proceeds of the St. Clare Notes were used by the Corporation to purchase substantially all of the assets of Culver Union Hospital (the "St. Clare Transaction") in Crawfordsville, Indiana (otherwise referred to herein as the St. Clare Facilities) pursuant to an Asset Sale Agreement between Tenet Healthcare Corporation (the "St. Clare Seller") and the Corporation dated August 20, 1999 (the "St. Clare Agreement"). The closing of the St. Clare Transaction occurred September 30, 1999 with an effective date of October 1, 1999. Subsequent to the closing of the St. Clare Transaction, the Corporation changed the name of Culver Union Hospital to St. Clare Medical Center.

Pursuant to the St. Clare Agreement, the Corporation acquired substantially all of the assets of the St. Clare Facilities including real property and tangible and intangible personal property. The Corporation also assumed certain liabilities of the St. Clare Seller with respect to the St. Clare Facilities and performance of certain contracts.

See Appendix B for historical statistical information with respect to the St. Clare Facilities for the years ending December 31, 1997 and 1998 and for the nine month period beginning January 1, 1999 and ending September 30, 1999. The financial statements in Appendix C include the activities of the St. Clare Facilities from October 1, 1999.

### **Olympia Fields Transaction**

A portion of the proceeds of the Series 2000 Bonds will be used to refinance the Illinois Authority's Hospital Revenue Notes, Series 1999C (Sisters of St. Francis Health Services, Inc. Project) dated December 16, 1999 in the amount of \$31,000,000 (the "Olympia Fields Notes"). The proceeds of the Olympia Fields Notes were used by the Corporation to purchase substantially all of the assets of the Olympia Fields Regional Osteopathic Medical Center (the "Olympia Fields Transaction") in Olympia Fields, Illinois (otherwise referred to herein as the Olympia Fields Facilities) pursuant to an Asset Purchase Agreement between Columbia/HCA Healthcare Corporation (the "Olympia Fields Seller") and the Corporation dated November 12, 1999 (the "Olympia Fields Agreement"). The closing of the Olympia Fields Transaction occurred January 7, 2000 with an effective date of January 8, 2000. Subsequent to the closing of the Olympia Fields Transaction, the Corporation changed the name of the Olympia Fields Regional Osteopathic Medical Center to St. James Hospital and Health Centers, Olympia Fields.

On November 24, 1999, the Corporation entered into a Credit Agreement with Bank One, Indiana, NA ("Bank One") pursuant to which Bank One agreed to provide the Corporation with a taxable line of credit (the "Line of Credit") with an available amount of \$75,000,000. The

Corporation used \$7,900,000 from the Line of Credit to purchase certain assets of the Olympia Fields Facilities.

Pursuant to the Olympia Fields Agreement, the Corporation acquired substantially all of the assets of the Olympia Fields Facilities, including real property and tangible and intangible personal property. The Corporation also assumed certain liabilities of the Olympia Fields Seller with respect to the Olympia Fields Facilities and performance of certain contracts.

See Appendix B for historical statistical information with respect to the Olympia Fields Facilities. The financial statements in Appendix C do not include the activities of the Olympia Fields Facilities.

### **Mooreville Transaction**

A portion of the proceeds of the Series 2000 Bonds will be used to refinance the Indiana Authority's Hospital Revenue Notes, Series 1999B (Sisters of St. Francis Health Services, Inc. Project) dated December 16, 1999 in the amount of \$20,000,000 (the "Mooreville Notes"). The proceeds of the Mooreville Notes were used by the Corporation to purchase substantially all of the assets of Kendrick Memorial Hospital (the "Mooreville Transaction") in Mooreville, Indiana pursuant to an Asset Purchase Agreement between Kendrick Memorial Hospital, Inc. (the "Mooreville Seller") and the Corporation dated as of January 5, 2000 (the "Mooreville Agreement"). The Corporation used \$12,000,000 from the Line of Credit to purchase certain assets of the Mooreville Facilities. The closing on the Mooreville Transaction occurred January 14, 2000 with an effective date of January 15, 2000 and an effective date of January 1, 2000 for accounting purposes. Subsequent to the closing of the Mooreville Transaction, the Corporation changed the name of Kendrick Memorial Hospital to St. Francis Hospital and Health Centers, Mooreville.

Pursuant to the Mooreville Agreement, the Corporation acquired substantially all of the assets of the Mooreville Seller, including real property and tangible and intangible personal property. The Corporation also assumed certain liabilities of the Mooreville Seller and performance of certain contracts.

See Appendix B for historical statistical information with respect to the Mooreville Facilities. The financial statements in Appendix C do not include the activities of the Mooreville Facilities.

## **OTHER RECENT TRANSACTIONS**

### **Memorial Facilities**

On July 1, 1997, Memorial Hospital of Michigan City, Indiana, Inc. ("Memorial") transferred the assets constituting the Memorial Hospital in Michigan City ("Memorial Facilities") to Alverno. On December 1, 1997 Alverno transferred the Memorial Facilities to the Corporation. The

Corporation subsequently consolidated substantially all of its operations in Michigan City into one campus, referred to herein as the St. Anthony Memorial Facilities. The financial statements in Appendix C include the activities of the Memorial Facilities beginning July 1, 1997.

### **St. Francis-Evanston Facilities**

On November 30, 1997 ("Effective Date"), the Corporation transferred control of the St. Francis Hospital of Evanston ("St. Francis-Evanston Hospital") and St. Francis Extended Care Center ("St. Francis-Evanston Extended Care Center" referred to collectively with St. Francis-Evanston Hospital as the "St. Francis-Evanston Facilities") each located in Evanston, Illinois to the Resurrection Health Care System ("Resurrection"). On the Effective Date, control of the St. Francis-Evanston Facilities was transferred to Resurrection and the net asset book value of the St. Francis-Evanston Facilities was transferred to the Corporation. The financial statements set forth in Appendix C include the activities of the St. Francis - Evanston Facilities through November 30, 1997.

In addition, the Congregation and the Sisters of the Resurrection entered into a co-sponsorship arrangement which created two classes of members for each: a Class A Member and a Class B Member. See "CORPORATE ORGANIZATION" for a description of the authority of each member.

### **St. Joseph Facilities**

On November 30, 1997, the Corporation transferred the operations of St. Joseph Hospital and Health Centers (the "St. Joseph Facilities") located in Memphis, Tennessee to an affiliate of Baptist Memorial Health Care Corporation and the ownership of the land and buildings to an affiliate of St. Jude Children's Research Hospital. The financial statements set forth in Appendix C include the activities of the St. Joseph Facilities through November 30, 1997.

### **Greater Lafayette Health Services, Inc.**

The Corporation and North Central Health Services, Inc. ("NCHS") are the corporate members of GLHS, a nonprofit corporation and a 501(c)(3) Entity. Pursuant to an Agreement dated August 31, 1998 ("Lafayette Agreement"), on January 29, 1999, Lafayette Home Hospital, Inc. ("LHH") and the Corporation transferred to GLHS substantially all of the assets related to Lafayette Home Hospital ("LHH Facilities") and St. Elizabeth Medical Center (the "St. Elizabeth Facilities" with the LHH Facilities referred to as the "Lafayette Facilities") located in Lafayette, Indiana. Such transaction has an effective date of January 1, 1999 for accounting purposes. Pursuant to the Lafayette Agreement, the Corporation and NCHS will each receive an annual payment (initially \$810,000, and thereafter adjusted for inflation) as a partial return on its investment in GLHS (the "Annual Payment"), subject to limits based on the financial condition of GLHS. Additionally, GLHS may declare additional distributions to the Corporation and NCHS upon realization of certain operational financial goals. GLHS has also agreed to purchase certain services from the Corporation

at prices subject to fair market value determination. The financial statements set forth in Appendix C do not include the activities of the LHH Facilities but do include those of the St. Elizabeth Facilities through December 31, 1998. Subsequent to December 31, 1998, the Corporation's investment in GLHS is accounted for in the Corporation's financial statements using the equity method.

### **FSCSC Transactions**

Effective March 1, 1999 (the "1999 Issue Date"), the Corporation acquired the St. Anthony Medical Center - Crown Point Facilities pursuant to an Asset Purchase Agreement dated February 9, 1999 (the "SAMC Agreement") between the Corporation and St. Anthony Medical Center, Inc. ("St. Anthony - Crown Point"); the Master Agreement dated February 9, 1999 ("Master Agreement") among Franciscan Sisters of Chicago Service Corporation ("FSCSC"), Franciscan Eldercare Services/Illinois, Inc. ("FES"), St. Anthony - Crown Point, and Franciscan Holding Corporation ("FHC") and the Corporation; the Stock Purchase Agreement dated February 9, 1999 ("FHC Agreement") between FSCSC and the Corporation; the Eldercare Facilities Purchase Agreement dated February 9, 1999 ("Eldercare Agreement I") between the Corporation and FES, and the Illinois Eldercare Facilities Purchase Agreement dated February 9, 1999 ("Eldercare Agreement II") between the Corporation and FES (collectively, the foregoing agreements are referred to as the "Definitive Agreement").

The Corporation acquired substantially all of the assets relating to the business and operation of the St. Anthony Medical Center - Crown Point Facilities as a going concern, including real property and tangible and intangible personal property. The Corporation assumed certain outstanding indebtedness of St. Anthony - Crown Point and defeased such debt on the 1999 Issue Date. The Corporation also assumed certain current liabilities of St. Anthony - Crown Point and FHC and the payment and performance of certain contracts.

Additionally, on the 1999 Issue Date, the Corporation sold two eldercare facilities, one located in Delphi, Indiana and one located in Louisville, Kentucky, to FES, a nonprofit corporation controlled by FSCSC, pursuant to the Definitive Agreement. The Crete Facilities, which consist of the Corporation's remaining eldercare facility and assisted living facility, were sold to FES with an effective date of April 16, 2000.

Effective February 7, 2000, the Corporation entered into a Definitive Agreement with FHCS and FSCSC to create a Certified Intermittent Home Health Joint Venture (the "Home Health Venture"). The Corporation contributed St. Anthony Memorial's home health agency to the Home Health Venture and FSCSC contributed the home health agency of FHCS in Crown Point, Indiana to the Home Health Venture. The Corporation controls 50% of the Home Health Venture's board of directors and FSCSC controls 50%. Also effective February 7, 2000, pursuant to a Private Duty and Related Operations Purchase Agreement with FHCS, the Corporation sold its private duty, hospice, adult day care, companion care and home aid operations in Lake and La Porte Counties, Indiana. The activities described in this paragraph are not reflected on the financial statements set forth in Appendix C.



The financial statements in Appendix C include the activities of the St. Anthony Medical Center-Crown Point Facilities from March 1, 1999 to December 31, 1999. The financial statements in Appendix C include the activities of the Delphi/Louisville Eldercare Facilities through February 28, 1999. The financial statements in Appendix C include the activities of the Crete Facilities.

## **OTHER RELATIONSHIPS**

In accordance with the strategy of the Corporation to encourage healthier communities and integrated delivery networks, discussions are being conducted by the Corporation concerning possible networks, other affiliations and other acquisitions. These negotiations are at different stages, and there is no assurance that agreements will be reached in any of these transactions.

In early 1999, the Corporation entered into affiliation discussions with Ingalls Health System ("Ingalls") in Harvey, Illinois. On April 4, 2000, the board of directors of Ingalls voted to re-evaluate its strategic direction and cease discussions with the Corporation. There is no assurance that the Corporation will or will not resume affiliation discussions with Ingalls sometime in the future. In March, 2000, the health care system that owns St. Francis Hospital in Blue Island, Illinois ("Blue Island") announced its intention to sell Blue Island. The Corporation is in the process of evaluating whether it will participate in the sale process and there can be no assurance that the Corporation will or will not become involved in negotiations concerning Blue Island.

## **1999 HEALTH CENTER FACILITIES OVERVIEW**

As of December 31, 1999, the 1999 Health Center Facilities had an aggregated licensed bed capacity of 2,557, all of which are general acute or sub-acute care. Of the 2,557 licensed beds, 1,691 are currently available for use.

The following table sets forth certain information concerning the 1999 Health Center Facilities as of December 31, 1999, including their locations, year founded or acquired by the Corporation, licensed and staffed beds.

**1999 Health Center Facilities Overview as of December 31, 1999<sup>1</sup>**

<b><u>Name</u></b>	<b><u>Location</u></b>	<b><u>Year Founded/ Acquired</u></b>	<b><u>Licensed Beds</u></b>	<b><u>Staffed Beds</u></b>
St. Anthony Memorial Health Centers	Michigan City, Indiana	1903	324	207
St. Francis Hospital and Health Centers	Beech Grove/ Indianapolis, Indiana	1913/1995	540	356
St. James Hospital and Health Centers	Chicago Heights, Illinois	1911	361	231
St. Margaret Mercy Healthcare Centers	Hammond/Dyer, Indiana	1898/1992	801	559
St. Anthony Medical Center of Crown Point	Crown Point, Indiana	1999	411	251
St. Clare Medical Center	Crawfordsville, Indiana	1999	<u>120</u>	<u>87</u>
<b>Total</b>			<b><u>2,557</u></b>	<b><u>1,691</u></b>

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<sup>1</sup> Source: Corporation Records.

**Percentage of Total Net Patient Revenue<sup>1</sup>**

	<u>December 31, 1997</u>	<u>December 31, 1998</u>	<u>December 31, 1999</u>	<u>Included in Credit Group on Issue Date</u>
St. Anthony Memorial Health Centers	8.59%	11.03%	11.41%	Yes
St. Elizabeth Medical Center <sup>2</sup>	9.80	12.71	N/A	No
St. Francis Hospital and Health Centers <sup>3</sup>	23.42	30.64	30.66	Yes
St. James Hospital and Health Centers <sup>3</sup>	11.74	14.35	14.19	Yes
St. Margaret Mercy Healthcare Centers	22.62	29.21	31.30	Yes
St. Francis Hospital of Evanston <sup>4</sup>	15.21	N/A	N/A	No
St. Joseph Hospital and Health Centers <sup>5</sup>	6.64	N/A	N/A	No
St. Anthony Medical Center of Crown Point <sup>6</sup>	N/A	N/A	10.38	Yes
St. Clare Medical Center <sup>6</sup>	<u>N/A</u>	<u>N/A</u>	<u>1.16</u>	Yes
<b>Subtotal</b>	<u>98.02%</u>	<u>97.94%</u>	<u>99.10%</u>	
Other	<u>1.98%</u>	<u>2.06%</u>	<u>.90%</u>	No
<b>Total</b>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	

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<sup>1</sup> Source: Corporation Records.

<sup>2</sup> The table includes information for the St. Elizabeth Facilities only through December 31, 1998. See "OTHER RECENT TRANSACTIONS" - Greater Lafayette Health Services, Inc.

<sup>3</sup> The information for St. Francis Hospital and Health Centers and for St. James Hospital and Health Centers does not include the Mooresville Facilities or the Olympia Fields Facilities which were acquired in January, 2000. See "ST. CLARE, OLYMPIA FIELDS AND MOORESVILLE TRANSACTIONS" in this Appendix A and see Appendix B.

<sup>4</sup> The Corporation transferred St. Francis Hospital of Evanston and St. Francis Extended Care Center on November 30, 1997 - see "OTHER RECENT TRANSACTIONS-St. Francis-Evanston Facilities".

<sup>5</sup> The Corporation transferred St. Joseph Hospital and Health Centers on November 30, 1997 - see "OTHER RECENT TRANSACTIONS - St. Joseph Facilities".

<sup>6</sup> The information included for the St. Anthony Medical Center - Crown Point Facilities is for the ten month period commencing March 1, 1999 and ending December 31, 1999. The information included for the St. Clare Facilities is for the three month period commencing October 1, 1999 and ending December 31, 1999. For further information, see Appendix B.

## **CORPORATE ORGANIZATION**

### **Sponsorship**

There are two classes of members of the Corporation. The Class A Members consist of the Provincial Superior and Council of the Sisters of St. Francis of Perpetual Adoration (or their designees) and the Provincial Superior and Council of the Sisters of the Resurrection (or their designees). Powers reserved to Class A Members include adopting or amending statements of philosophy, mission and values of the Corporation and any of its affiliates; seeking input from Class B Members concerning the above statement; amending the by-laws to provide for the inclusion of additional Class A Members; and amending the Articles or by-laws that would decrease or change the above mentioned powers of the Class A Members. Affirmative voting of the Class A Members occurs when the majority of each member present or by proxy votes for the proposed action.

The Class B Members consist of all Sisters of the Province who are in perpetual vows. Powers reserved to Class B Members include amending the Articles of Incorporation (if reviewing something affecting the Class A Membership, the Resurrection Provincial and her Council are also involved); approving mergers or consolidation of the Corporation; approving the sale of the majority of the assets of the Corporation; and approving the dissolution of the Corporation. Three members of the Provincial Council, the provincial treasurer, the director of health care of the Province and three other Sisters appointed Class B Members will vote on all other issues reserved to the Class B Members as indicated in the Corporation's bylaws.

### **Governance**

The Corporation is governed by a Board of Directors, which currently consists of nine persons. The bylaws require that the majority of the directors be Sisters of the Congregation. The directors shall include (1) three persons who are members of the Provincial Council of the Sisters of the Eastern Province of the Sisters of St. Francis of Perpetual Adoration, (2) the treasurer of the Province, (3) the director of the health care services of the Province, and (4) the president of the Corporation. Currently the board consists of eight Sisters of St. Francis of Perpetual Adoration and the chief executive officer and president of the Corporation. The Board of Directors of the Corporation has approved the addition of up to 6 lay persons to the Board of Directors and is in the process of contacting prospective members.

The membership of the Corporation's Board of Directors is as follows:

<u>Name</u>	<u>Corporate Position</u>
Sister M. Jane Marie Klein*	Chairperson
Kevin D. Leahy*	President and Chief Executive Officer
Sister M. Corita Last*	Vice President
Sister M. Ann Kathleen Magiera*	Treasurer
Sister M. Anna Marie Hofmeyer*	Director
Sister M. Blanche Rausch	Director
Sister M. Rose Agnes Pfautsch	Director
Sister M. Clare Reuille	Director
Sister M. Marilyn Oliver	Director

\* Member of the Executive Committee

The bylaws of the Corporation provide for the establishment of an Executive Committee to exercise the authority of the Board of Directors in the management of the Corporation subject to certain limitations. The Executive Committee consists of the Chairperson of the Board of Directors, the President of the Corporation and three other directors elected by the Board of Directors. The Board has also established three separate permanent committees which focus on mission, quality and finance, respectively.

In addition, six local operating boards for each 1999 Health Center Facility have been established. Functions delegated to these local operating boards include medical staff affairs, quality assurance, budgeting, strategic planning and community relations.

## **Management**

The Board of Directors of the Corporation appoints a chief executive officer, a chief operating officer and a chief financial officer for each 1999 Health Center Facility. These officers are all employees of the Corporation. Each chief executive officer reports to the president and chief executive officer of the Corporation.

Day to day management of the 1999 Health Center Facilities is effected at the local level. As described above, certain management and operational responsibilities for each 1999 Health Center Facility have been delegated to separate corporations.

Operations of the 1999 Health Center Facilities are coordinated through an operating committee which meets on a monthly basis and makes operating decisions and recommendations to the board of the Corporation. The members of the operating committee include the chief executive officer, chief operating officer and chief financial officer of each 1999 Health Center Facility, and the president and the vice presidents of the Corporation. Some members of the Board of the Corporation also participate in these meetings. Each 1999 Health Center Facility must

independently meet established operational and financial targets. The goal of the System as a whole is to meet or exceed "AA" financial performance benchmarks.

## **Executive Officers**

The current senior corporate officers of the Corporation are as follows:

**Sister M. Jane Marie Klein, age 61, Chairperson of the Board of Directors.** Sister Jane Marie assumed her current position in November 1996 after serving as President and Chief Executive Officer of the Corporation for three years. Prior to joining the Corporation, she held the position of President and Chief Executive Officer of the St. Margaret Mercy Facilities for ten years. In addition, she has previously held the position of Administrator and Chief Executive Officer at the St. Anthony Facilities; Assistant Administrator at St. Elizabeth Facilities; Director of Social Service Work in St. Anthony Hospital, Louisville, Kentucky; Accountant at St. Joseph Hospital, Logansport, Indiana; and Accountant at St. Anthony Hospital in Terre Haute, Indiana. Sister Jane Marie received a Bachelor of Science Degree from St. Louis University, St. Louis, Missouri, in 1965, a Masters Degree in Social Work from Loyola University, Chicago, Illinois, in 1973, and a Certificate in Executive Development in Healthcare Administration from The Ohio State University, Columbus, Ohio, in 1976. She is a member of the Board of Trustees of the Catholic Health Association, St. Louis, Missouri; and a member of the board of CHM, St. Anthony Memorial, St. Francis-Central Indiana, St. Margaret Mercy, St. James, St. Clare, SAMC, AHC, Alverno Construction; Chairperson of the board of GLHS; a member of the South Bend/Fort Wayne Diocesan Finance Council, Fort Wayne, IN, and a member of the Congregation of Sisters of St. Francis of Perpetual Adoration Leadership Council.

**Kevin D. Leahy, age 52, President and Chief Executive Officer.** Prior to joining the Corporation in 1996, Mr. Leahy held the position of Chief Executive Officer in three of the Corporation's hospitals over a seventeen year period (St. Anthony Memorial Facilities, the St. James-Chicago Heights/Olympia Fields Facilities and St. Francis-Beech Grove/Indianapolis/Mooresville Facilities); and administrative residency positions at Oschner Clinic Foundation, New Orleans, Louisiana, and at St. John Mercy Hospital, St. Louis, Missouri. Mr. Leahy received a Bachelor's Degree from Regis College, Denver, Colorado, in 1968; a Masters Degree from the University of Dayton, Dayton, Ohio, in 1970; and a Masters Degree in Health Administration from Saint Louis University, St. Louis, Missouri, in 1978. He has been a member of the Indiana Hospital and Health Association - Urban Hospital Committee, the Illinois Catholic Health Association, the Archdiocesan Health Ethics Committee, the Sagamore and the Indiana Alliance for Health. Mr. Leahy is a Diplomate of the American College of Healthcare Executives and a member of the Medical Group Management Association. He is president and a board member of the Corporation, AHC, Alverno Construction and CHM and a board member of St. James, St. Anthony Memorial, St. Francis-Central Indiana, St. Margaret Mercy, SAMC, St. Clare, GLHS, Midwest Health Ventures, Inc., and the Consolidated Catholic Healthcare Corporation and Midwestern University.

**Sister M. Ann Kathleen Magiera, age 53, Treasurer of the Board of Directors.** Sister Ann Kathleen joined the Corporation in July 1998. She presently divides her time between the finance

offices of the Corporation and the Congregation. Sister Ann Kathleen spent twenty-six years teaching and administrating at the elementary and secondary levels in schools in Indiana, Missouri and Illinois. After working in the finance department at St. Francis Hospital - Evanston in 1997, she moved to Mishawaka in early 1998 and worked in the Congregation's business office. Sister Ann Kathleen received her Bachelor of Science Degree in 1974 and a Masters of Science in Secondary Education in 1980, both from the University of St. Francis, Fort Wayne, Indiana. She did her school administrative training at Xavier University in Cincinnati, Ohio. In 1997, Sister completed an MBA at Loyola University, Chicago, Illinois. Sister Ann Kathleen serves on the boards of the Corporation, St. James, SAMC, Midwest Health Ventures, Inc., AHC, CHM, Community Village and Alverno Lakeside. She is a member of the Healthcare Financial Management Association. She also serves as a member of the Congregation of Sisters of St. Francis of Perpetual Adoration Leadership Council.

**Sister M. Corita Last, age 51, Vice President of The Corporation.** Prior to joining the Corporation in 1993, Sister Corita held the positions of Staff Nurse and Patient Care Director in Pediatrics at St. Francis - Evanston Facilities; Maternal Child Health Clinical Specialist at St. Joseph Facilities; Health Clinical Specialist and Vice President of Mission Effectiveness at the St. James-Chicago Heights/Olympia Fields Facilities and Vice President of Clinical Support Services at St. Margaret Mercy. Presently, she is Vice President of Mission Services at St. Francis-Central Indiana. Sister also oversees mission services at St. Clare. Sister Corita graduated from the School of Nursing at St. Alexis Hospital, Cleveland, Ohio, in 1973. She received her Bachelor of Science Degree in 1978 and her Master of Science Degree in Nursing in 1986 both from Loyola University, Chicago, Illinois. Sister Corita serves as a board member for the following: the Corporation, St. Margaret Mercy, St. Francis-Central Indiana, St. Clare, Midwest Health Ventures, Inc. and GLHS.

**Sister M. Madonna Rougeau, age 52, Secretary of the Board of Directors.** Sister Madonna took her present position in the spring of 1998 and serves as corporate secretary for the Corporation and Alverno. Having been active in healthcare since 1969, Sister Madonna has served in various nursing capacities at St. Alexis, Cleveland, Ohio, St. James, St. Anthony Medical Center, Louisville, Kentucky, St. Francis Hospital - Evanston and St. Margaret Mercy. Sister Madonna also served as assistant Vice President at St. Elizabeth, and as Vice President of Post Acute Services at St. Anthony Medical Center, Louisville, Kentucky and St. Margaret Mercy. Sister Madonna received her R.N. from St. Alexis Hospital School of Nursing, a BSN from Loyola University and an MS in Nursing Administration from DePaul University. Sister Madonna holds a Masters in Health Administration from St. Louis University, St. Louis, Missouri. Since 1989, Sister Madonna has been licensed as a Health Facility Administrator. Sister Madonna served on the Board of the Corporation from 1994-1998 and on other non-profit community boards since 1989. Sister is currently serving on the boards of St. James, FPM and Franciscan Home Care Services, Inc.

**William J. Lammers, age 52, Senior Vice President Finance.** Mr. Lammers joined the Corporation in November 1989 as Assistant Vice President of Finance. In 1990, he was appointed Vice President of Finance and, in March 1997, Mr. Lammers was appointed to his current position. Prior to joining the Corporation, Mr. Lammers was with Crowe Chizek, a large, regional accounting

and consulting firm where nearly all of his time was devoted to healthcare clients. Mr. Lammers also served Memorial Hospital of South Bend for two years as Director of Accounting Services from 1980 to 1982. Mr. Lammers received his Bachelor and Masters Degrees in Accountancy and Business Administration from Miami University, Oxford, Ohio, in 1970 and 1973, respectively. Mr. Lammers is a member of the American Institute of Certified Public Accountants and the Indiana CPA Society. He is a diplomate in the American College of Healthcare Executives and the Healthcare Financial Management Association (HFMA). He served on the board of St. Margaret Mercy from 1992 through 1998, and currently serves on the boards of GLHS and CHM. Mr. Lammers currently serves as President of the Indiana Pressler Memorial Chapter of HFMA.

**Lawrence O. Leaman, age 56, Senior Vice President Business Development.** Prior to joining the Corporation in 1992 as Chief Executive Officer of St. Alexis Hospital, Cleveland, Ohio, Mr. Leaman served as: Assistant Administrator at Henry Ford Hospital, Detroit, Michigan; Chief Operating Officer at Bon Secours Hospital, Grosse Point, Michigan; Chief Operating Officer and President at St. Vincent Medical Center, Toledo, Ohio; and Senior Vice President of TDS Health Services, Toledo, Ohio. Mr. Leaman received his Bachelor of Science Degree from John Carroll University, Cleveland, Ohio in 1965; his Masters in Business Administration from Ohio University in 1966; and his Masters in Hospital Administration from the University of Minnesota in 1971. He is a diplomate of the American College of Healthcare Executives. In addition, he serves on the boards of AHC, ACL, St. Anthony Memorial, Franciscan Home Care Services, Inc., FPM and Star Alliance.

**Robert E. Waltz, Jr., age 58, Senior Vice President Materials and Engineering Resources.** Mr. Waltz joined the Corporation in 1980 as Director of Group Purchasing before assuming his current responsibility for Materials and Engineering Resources. He joined the Corporation with twenty-five years of previous experience in material management, including ten years with Humana. Mr. Waltz holds a Bachelors Degree in Business Administration from St. Joseph's University, Philadelphia, Pennsylvania. He was the Chairman of Catholic Materials Management Alliance and is a member of Healthcare Electronic Data Information Coalition and a member of Directors of Healthcare Purchasing Association. He serves as a board member of Consorta, a Catholic Group Purchasing Organization.

## **MEDICAL STAFF**

Each 1999 Health Center Facility has a separate medical staff appointed pursuant to processes approved by the governing body of such facility. The following table sets forth the medical staff complement and average age of physicians at each 1999 Health Center Facility as of December 31, 1999.



### Medical Staff Complement as of December 31, 1999<sup>1</sup>

	<u>Active</u>	<u>Associate</u>	<u>Other</u>	<u>Total</u>	<u>Average Age</u>
St. Anthony Memorial Health Centers	102	33	35	170	49
St. Francis Hospital and Health Centers <sup>2</sup>	294	112	216	622	45
St. James Hospital and Health Centers <sup>2</sup>	113	142	33	288	48
St. Margaret Mercy Healthcare Centers	353	112	112	577	49
St. Anthony Medical Center of Crown Point	243	75	20	338	45
St. Clare Medical Center <sup>3</sup>	<u>35</u>	<u>42</u>	<u>24</u>	<u>101</u>	<u>45</u>
Total/Average	<u>1,140</u>	<u>516</u>	<u>440</u>	<u>2,096</u>	<u>47</u>

### SUPPORT STAFF AND OTHER EMPLOYEES

As of December 31, 1999, approximately 7,998 full-time equivalent (FTEs) personnel were employed at the 1999 Health Center Facilities. The following table sets forth the full-time equivalent personnel for each 1999 Health Center Facility as of December 31, 1997, December 31, 1998 and December 31, 1999:

#### Support Staff<sup>1</sup>

	<u>December 31, 1997</u>	<u>December 31, 1998</u>	<u>December 31, 1999</u>
St. Anthony Memorial Health Centers	769	823	759
St. Francis Hospital and Health Centers <sup>2</sup>	2,551	2,606	2,674
St. James Hospital and Health Centers <sup>2</sup>	1,077	1,114	1,141
St. Margaret Mercy Healthcare Centers	2,313	2,353	2,223
St. Anthony Medical Center of Crown Point <sup>3</sup>	N/A	N/A	889
St. Clare Medical Center <sup>3</sup>	<u>N/A</u>	<u>N/A</u>	<u>312</u>
Total	<u>6,710</u>	<u>6,896</u>	<u>7,998</u>

The Corporation has experienced satisfactory labor relations at all 1999 Health Center Facilities, and currently no employees at the 1999 Health Center Facilities are unionized. Management of the Corporation cannot predict the extent of any future union activities among its employees or the possible effects of such activities, if any, on future operations.

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<sup>1</sup>Source: Corporation Records. Note that statistics also do not include St. Francis Hospital of Evanston, St. Joseph Hospital and Health Centers or St. Elizabeth Medical Center. See "OTHER RECENT TRANSACTIONS".

<sup>2</sup>For information regarding the Olympia Fields Facilities and the Mooresville Facilities, see Appendix B.

<sup>3</sup>The information for St. Anthony Medical Center of Crown Point only includes the ten month period beginning March 1, 1999 through December 31, 1999. The information for St. Clare Medical Center only includes the three month period beginning October 1, 1999 through December 31, 1999. For additional historical information, see Appendix B.

The Corporation maintains several employee benefit plans including a retirement program containing a defined benefit plan with a non-contributory pension plan and trust, as well as an employee directed defined contribution plan with employer matching contributions. Benefit plans also include health, dental, life, disability, paid time off, and other benefit programs covering employees who meet the requirements of those respective plans.

## **FINANCIAL AND STATISTICAL INFORMATION**

### **Presentation of Financial Information**

The financial information presented herein includes information for the Corporation (includes information for all entities which are or were operating divisions but do not or did not operate as separate corporations), St. Margaret Mercy, St. Francis-Central Indiana (does not include any information related to the activities of the Mooresville Facilities - the Mooresville Facilities were acquired effective January 15, 2000), St. Anthony Memorial, St. James (does not include any information related to the activities of the Olympia Fields Facilities - the Olympia Fields Facilities were acquired effective January 8, 2000), SAMC, St. Clare and CHM but also includes Hills, and subsequent to December 31, 1997, Alverno, Alverno Construction, the Foundation, FHC and FPM which are all controlled by the Corporation and are not members of the Credit Group. The Corporation, St. Margaret Mercy, St. Francis - Central Indiana, St. Anthony Memorial, CHM, St. James, SAMC, St. Clare, Hills, Alverno, Alverno Construction, the Foundation, FHC and FPM and certain other entities during particular time periods as described below are referred to as the "Consolidated Group".

The financial information herein and the financial statements in Appendix C include the activities of the St. Francis - Evanston Facilities and St. Joseph Facilities through November 30, 1997. Subsequent to that date, such activities are no longer included as part of the Consolidated Group or the Credit Group. The financial information herein and the financial statements in Appendix C include the activities of the St. Elizabeth Facilities; however, subsequent to January 1, 1999, such activities are represented in the Consolidated Group information through the investment of the Corporation in GLHS. The financial information herein and the financial statements in Appendix C include the activities of the Corporate Eldercare Facilities; however, subsequent to February 28, 1999, with respect to the Delphi/Louisville Eldercare Facilities, such activities are no longer included as part of the Consolidated Group or the Credit Group. Subsequent to April 16, 2000, the activities of the Crete Facilities will no longer be included as part of the Consolidated Group or the Credit Group.

With respect to SAMC, the financial information herein and in the financial statements in Appendix C include the ten month period beginning March 1, 1999 and ending December 31, 1999. See Appendix B for further historical financial information regarding SAMC. With respect to St. Clare, the financial information herein and in the financial statements in Appendix C include the three month period beginning October 1, 1999 and ending December 31, 1999. See Appendix B for further historical information regarding St. Clare. **The financial information herein and the financial statements in Appendix C do not include the activities of the Olympia Fields Facilities or the Mooresville Facilities, which were acquired subsequent to December 31, 1999.** See

Appendix B for historical financial information regarding the Olympia Fields Facilities and the Mooresville Facilities.

Except when specifically noted to the contrary, the financial information has not been adjusted to show the effect of the 2000 Transactions. See "FINANCIAL AND STATISTICAL INFORMATION - Expected Financial Impact of the 2000 Transactions."

### **Summary of Revenue and Expenses and Balance Sheet**

*Consolidated Group.* The following consolidated summary of revenues and expenses for the fiscal years ended December 31, 1997, 1998 and 1999 and the consolidated summary balance sheet as of December 31, 1997, 1998 and 1999 have been derived by the management of the Corporation (except for pro forma amounts) from the consolidated financial statements of the Corporation included in Appendix C, which have been audited by PricewaterhouseCoopers LLP, independent auditors. The information should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

**Summary Of Revenue And Expenses for Consolidated Group**  
(\$ In Thousands)

	Fiscal Year Ended December 31,		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Net Patient Service and Premium Revenue	\$839,538	\$664,524	\$715,035
Other Revenue	<u>43,868</u>	<u>127,344</u>	<u>121,799</u>
Total Revenue	<u>883,406</u>	<u>791,868</u>	<u>836,834</u>
Operating Expenses:			
Expenses, excluding interest, Depreciation and Amortization	779,781	690,130	748,190
Interest	5,809	12,115	17,144
Depreciation and Amortization	<u>59,122</u>	<u>52,346</u>	<u>60,986</u>
Total Expenses	<u>844,712</u>	<u>754,591</u>	<u>826,320</u>
Operating Income	38,694	37,277	10,514
Nonoperating Income, net	<u>49,368</u>	<u>85,599</u>	<u>71,601</u>
Excess of Revenues Over Expenses	<u>\$88,062</u>	<u>\$122,876</u>	<u>\$82,115</u>

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Note: This table contains certain information for health care facilities which are no longer included in the Credit Group as described under the foregoing section "Presentation of Financial Information." For additional information, see "OTHER RECENT TRANSACTIONS" and "ST. CLARE, OLYMPIA FIELDS AND MOORESVILLE TRANSACTIONS" in this Appendix A.

**Summary Balance Sheet Data for Consolidated Group<sup>1</sup>**  
(\$ in thousands)

	December 31,			
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>Pro forma<sup>2</sup></u>
<b>ASSETS</b>				
Current Assets:				
Cash and Investments	\$52,785	\$110,237	\$111,986	\$51,086
Other Current Assets	<u>156,473</u>	<u>164,243</u>	<u>186,064</u>	<u>205,064</u>
Total Current Assets	209,258	274,480	298,050	256,150
Investments Limited as to Use	735,476	763,764	800,111	827,211
Property, Plant and Equipment, net	396,846	423,677	547,281	607,781
Investment in GLHS	—	—	122,945	122,945
Other Assets	<u>36,389</u>	<u>52,744</u>	<u>132,589</u>	<u>132,589</u>
<b>Total Assets</b>	<u><b>\$1,377,969</b></u>	<u><b>\$1,514,665</b></u>	<u><b>\$1,900,976</b></u>	<u><b>\$1,946,676</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Short-term Borrowings	—	—	\$125,800	\$19,900
Current portion of Long- Term Debt	\$4,583	\$8,051	12,150	12,150
Other Current Liabilities	<u>91,922</u>	<u>105,261</u>	<u>130,964</u>	<u>137,564</u>
Total Current Liabilities	<u>96,505</u>	<u>113,312</u>	<u>268,914</u>	<u>169,614</u>
Long-Term Debt	192,918	195,122	342,778	487,778
Other Liabilities	<u>69,658</u>	<u>71,794</u>	<u>74,467</u>	<u>74,467</u>
Total Liabilities	<u>359,081</u>	<u>380,228</u>	<u>686,159</u>	<u>731,859</u>
<b>Net Assets</b>	<u><b>1,018,888</b></u>	<u><b>1,134,437</b></u>	<u><b>1,214,817</b></u>	<u><b>1,214,817</b></u>
<b>Total Liabilities and     Net Assets</b>	<u><b>\$1,377,969</b></u>	<u><b>\$1,514,665</b></u>	<u><b>\$1,900,976</b></u>	<u><b>\$1,946,676</b></u>

<sup>1</sup>Note that this table contains certain information for health care facilities which are no longer included in the Credit Group as described in the foregoing section "Presentation of Financial Information". For additional information, see "OTHER RECENT TRANSACTIONS" in this Appendix A.

<sup>2</sup>See "Expected Financial Impact of the 2000 Transactions" below. The pro forma data set forth above includes the impact of those transactions and the issuance of the Series 2000 Bonds as described under the caption "PLAN OF FINANCE" in this Official Statement and "ST. CLARE, OLYMPIA FIELDS AND MOORESVILLE TRANSACTIONS" in this Appendix A.

## Expected Financial Impact of the 2000 Transactions

The pro forma balance sheet has been prepared by management of the Corporation to reflect the expected financial impact of the 2000 Transactions as if the transactions occurred as of December 31, 1999. The management of the Corporation believes that the 2000 Transactions will not have a material adverse impact on the financial position of the Corporation. The following table summarizes the expected impact of these transactions on the balance sheet of the Consolidated Group. See "MANAGEMENT'S DISCUSSION" herein.

### Summary Balance Sheet Data Reflecting Impact of Transactions<sup>1</sup>

(\$ in thousands)

	December 31, 1999	Transactions			December 31, 1999
	<u>Actual</u>	<u>St. Clare</u> <sup>2</sup>	<u>Olympia Fields</u>	<u>Mooreville</u>	<u>Pro forma</u> <sup>1</sup>
ASSETS					
Current Assets:					
Cash and Investments	\$111,986		\$(40,900)	\$(20,000)	\$51,086
Other Current Assets	<u>186,064</u>		<u>12,000</u>	<u>7,000</u>	<u>205,064</u>
Total Current Assets	298,050		(28,900)	(13,000)	256,150
Investments Limited					
as to Use	800,111		9,000	18,100	827,211
Property, Plant and					
Equipment, net	547,281		33,500	27,000	607,781
Investment in GLHS	122,945				122,945
Other Assets	<u>132,589</u>				<u>132,589</u>
Total Assets	<u>\$1,900,976</u>	<u>\$0</u>	<u>\$13,600</u>	<u>\$32,100</u>	<u>\$1,946,676</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Short-term Borrowings	\$125,800	\$(66,900)	\$(31,000)	\$(8,000)	\$19,900
Current portion of					
Long-Term Debt	12,150				12,150
Other Current Liabilities	<u>130,964</u>		<u>4,600</u>	<u>2,000</u>	<u>137,564</u>
Total Current Liabilities	268,914	(66,900)	(26,400)	(6,000)	169,614
Long-Term Debt					
	342,778	66,900	40,000	38,100	487,778
Other Liabilities	<u>74,467</u>				<u>74,467</u>
Total Liabilities	<u>686,159</u>	<u>\$0</u>	<u>13,600</u>	<u>32,100</u>	<u>731,859</u>
Net Assets	<u>1,214,817</u>				<u>1,214,817</u>
Total Liabilities and					
Net Assets	<u>\$1,900,976</u>	<u>\$0</u>	<u>\$13,600</u>	<u>\$32,100</u>	<u>\$1,946,676</u>

<sup>1</sup> The pro forma data set forth above includes the impact of the 2000 Transactions and issuance of the Series 2000 Bonds.

<sup>2</sup> The Corporation acquired the St. Clare Facilities effective October 1, 1999. Except as shown in this column, the balance sheet information for the St. Clare Facilities is included in the actual balance sheet data at December 31, 1999 which is part of this table.

## Pro Forma Capitalization

The following pro forma capitalization table for the Credit Group has been derived by the management of the Corporation from the audited financial statements described above. The pro forma capitalization table has been adjusted to show the effect of the issuance of the Series 2000 Bonds and the impact of the 2000 Transactions.

### Pro Forma Capitalization<sup>1</sup> (\$ in Thousands)

	<u>December 31, 1999</u>	<u>Effect of 2000 Financing Plan</u>	<u>Pro Forma Combined</u>
Long Term Debt <sup>2</sup> (including current portion)	\$ 354,928	\$ 145,000	\$ 499,928
Net Assets	<u>\$ 1,214,817</u>	<u>-</u>	<u>\$ 1,214,817</u>
Total Capitalization	<u>\$ 1,569,745</u>	<u>\$ 145,000</u>	<u>\$ 1,714,745</u>
Long Term Debt to Capitalization Ratio	<u>22.6%</u>		<u>29.2%</u>

## Coverage of Debt Service

The following table sets forth, for the fiscal years ended December 31, 1997, 1998 and 1999, the combined income of the Consolidated Group available to cover the actual debt service requirements on the long term indebtedness outstanding during the period indicated. The table also indicates the extent to which such income would provide coverage of maximum annual principal and interest payments on all long term indebtedness after the issuance of the Series 2000 Bonds as described under the caption "PLAN OF FINANCE". This table does not adjust Income Available for Debt Service to take into account the impact of the 2000 Transactions.

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<sup>1</sup> Source: Corporation Records.

<sup>2</sup> Excludes short term borrowings.

**Debt Service Coverage<sup>1</sup>**  
(\$ in Thousands)

	Fiscal Year Ended December 31		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Excess of Revenues over Expenses	\$88,062	\$122,876	\$82,115
Plus Depreciation, Amortization and Interest	<u>64,931</u>	<u>64,461</u>	<u>78,130</u>
Income Available for Debt Service	\$152,993	\$187,337	\$160,245
Actual Long Term Debt Service <sup>2</sup>	\$14,011	\$18,105	\$23,923
Historical Debt Service Coverage	10.9x	10.3x	6.7x
Pro Forma Maximum Annual Long <sup>3</sup> Term Debt Service	\$33,364	\$33,364	\$33,364
Pro Forma Debt Service Coverage	4.6x	5.6x	4.8x

**Utilization**

The following table sets forth certain utilization data applicable to the 1999 Health Center Facilities for the fiscal years ended December 31, 1997, 1998 and 1999, for St. Francis Evanston Hospital through November 30, 1997, for the St. Joseph Facilities through November 30, 1997 and for the St. Elizabeth Facilities through December 31, 1998:

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<sup>1</sup> Source: Corporation Records

<sup>2</sup> Excludes debt service on short term borrowings and non revenue bond debt.

<sup>3</sup> Assumes an interest rate of 5% per annum for the Series 2000 Bonds.



### Utilization<sup>1</sup>

	Fiscal Year Ended December 31,		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Average Staffed Beds	2,598	1,660	1,691
Discharges	82,186	64,041	67,569
Patient Days	451,264	331,312	343,753
Average Length of Stay (Days)	5.5	5.2	5.1
Average Daily Census	1,236	908	990
Occupancy	48.2%	54.0%	58.5%
Case Mix Index	1.21	1.20	1.23
Adjusted Discharges <sup>2</sup>	122,885	102,532	117,303

### Sources of Patient Revenue

Payments on behalf of certain patients are made pursuant to the provisions of Medicare and Medicaid regulations and policies of commercial insurance carriers and managed care organizations. The following table shows the average percentage of gross patient revenue by source of payment for the 1999 Health Center Facilities for fiscal years ended December 31, 1997, 1998 and 1999, St. Francis Evanston Hospital through November 30, 1997, the St. Joseph Facilities through November 30, 1997 and the St. Elizabeth Facilities through December 31, 1998.

### Sources of Patient Revenue<sup>1</sup>

	Fiscal Year Ended December 31,		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Medicare	48.8%	44.1%	43.3%
Medicaid	9.5	6.8	7.3
Blue Cross	5.6	6.5	7.9
Managed Care	20.7	23.7	27.7
Other Commercial	7.3	10.6	6.0
Self-pay & Other	<u>8.1</u>	<u>8.3</u>	<u>7.8</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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<sup>1</sup> Source: Corporation Records. The information included for SAMC is for the ten month period beginning March 1, 1999 and ending December 31, 1999. The information included for St. Clare is for the three month period beginning October 1, 1999 and ending on December 31, 1999. For further information regarding SAMC and St. Clare, and for information with respect to the Olympia Fields Facilities and the Mooresville Facilities, see Appendix B.

<sup>2</sup> Considers outpatient volumes.

## MANAGEMENT'S DISCUSSION

### Vision Statement

The Vision Statement of the Corporation is: "Our Catholic Health Ministry provides, in partnership with others who espouse our values, a truly healing environment for people whose needs we serve through a continuum of quality care in a variety of settings."

### Strategic and Competitive Profile

The Corporation's strategic goal is to become or affiliate with the leading provider in each of the System's markets with an emphasis on maintaining an acute-care focus in community-based delivery systems. The transactions which have been effectuated in the last four years have been reflective of this goal. Through various purchases, affiliations, and divestitures, the System has positioned itself as a leading acute care health care provider in four discrete markets: the Central Indiana Market, the Northwestern Indiana Market, the Lafayette Market and the Southern Chicagoland Market.

**The Central Indiana Market.** Because the Corporation opened the first campus of St. Francis Hospital and Health Centers in Beech Grove, Indiana in 1913, the Corporation has enjoyed a significant market presence in the Central Indiana Market. The opening of the second campus in Indianapolis, Indiana in 1995 and the acquisition of the St. Clare Facilities in 1999 and the Mooresville Facilities in 2000 further enhance this market presence.

**The Northwestern Indiana Market.** Since the 1997 transfer of the Memorial Facilities to the Corporation, the Corporation's management team has integrated operations of the Memorial Facilities with those of St. Anthony Memorial to make St. Anthony Memorial Facilities the sole acute care provider in Michigan City. See "OTHER RECENT TRANSACTIONS - Memorial Facilities" in this Appendix A.

Additionally, in order to further enhance the System's market presence in the Northwestern Indiana Market, the Corporation purchased the St. Anthony Medical Center - Crown Point Facilities effective March 1, 1999. This transaction also provided the Corporation with the opportunity to divest itself of three Corporate Eldercare Facilities to attain its strategic goal of a focus on acute care services. See "OTHER RECENT TRANSACTIONS - FSCSC Transactions" in this Appendix A.

**The Lafayette Market.** The investment in GLHS in 1999 by the Corporation consolidated the System's St. Elizabeth Facilities with the LHH Facilities (previously controlled by NCHS). NCHS now shares control of GLHS with the Corporation. This affiliation significantly improves the System's market position in Lafayette, Indiana as GLHS is the sole acute health care provider in the greater Lafayette market area. See "OTHER RECENT TRANSACTIONS - Greater Lafayette

Health Services, Inc." in this Appendix A for further discussion of the investment of the Corporation in GLHS.

**The Southern Chicagoland Market.** In order to further strengthen the System's position in the Southern Chicagoland Market, in 1999, Midwest Health Ventures, Inc. (formerly known as Chicago Heights Health Ventures, Inc.) acquired from MedPartners Physician Management, L.P. certain assets and rights, including, but not limited to the rights to provide business management services to SHMC and the rights to provide business management services in connection with an ambulatory surgery center operated by SHMC and its subsidiary Surgicare Center, Inc. Additionally, in 2000, the Corporation acquired the Olympia Fields Facilities.

**Certain Divestitures.** The Corporation's management team continually evaluates the operations of all System facilities. In late 1997, the Corporation divested the St. Joseph Facilities in Memphis, Tennessee and St. Francis-Evanston Hospital and St. Francis-Evanston Extended Care Center in Evanston, Illinois. These divestitures have proven to be positive strategies for the System. Neither of the divested facilities was located in the Corporation's four core markets described in this Official Statement. The proceeds received from these two transactions provided over \$250 million to the Corporation for other strategic initiatives.

### **Reaction to the Changing Health Care Environment**

The health care environment in which the System operates is complex and ever changing. Management continually monitors the reimbursement changes related to Medicare, Medicaid, managed care, and commercial insurers; the demographic changes in the communities which are served; and the needs of patients and their families. The System has experienced the shift to managed care, the increase of outpatient care, the interest in women's health, and the development of alternative physical fitness facilities.

In order to be the provider of choice in the communities served, capital improvements and redesigns are in process in many of the System's facilities. In 1997, the Corporation incurred long term debt in the aggregate principal amount of \$200,000,000 to refinance existing debt and fund certain capital needs in all of the markets in which it currently operates. In 1999, the Corporation incurred long term debt in the aggregate principal amount of \$150,000,000 to acquire the St. Anthony Medical Center-Crown Point Facilities and for other capital needs.

**The Central Indiana Market.** In the Central Indiana Market, construction of a new hospital in 1995 located on the southside of Indianapolis was completed, creating the second campus (the "South Campus") for the St. Francis-Beech Grove/Indianapolis Facilities. The South Campus is the newest acute care hospital in the state of Indiana and was designed with an emphasis on outpatient activity. With the addition of the South Campus, the Corporation has a strong market share in the southeastern Indianapolis area. The acquisition of the Mooresville Facilities in the southern growth corridor of greater Indianapolis in January 2000 further enhances the Corporation's presence in the

Indianapolis market and the acquisition of the St. Clare Facilities gives the Corporation a presence in Central Indiana west of Indianapolis.

**The Northwestern Indiana Market.** In the Northwestern Indiana Market, St. Anthony Memorial has begun renovating its facilities to give it an outpatient focus. St. Margaret Mercy has been proactive to the changing health care environment in the communities in which it serves. During 1998, St. Margaret Mercy purchased OMNI Fitness Center creating the System's first hospital owned fitness center. During 1998, a new wing was constructed on its South Campus that serves as an adolescent psychiatric residential center, the first of its kind in Northern Indiana. Further, to gain market share, St. Margaret Mercy completely remodeled its birthing center.

**The Southern Chicagoland Market.** In the Southern Chicagoland Market, St. James is using a portion of the above-described bond proceeds for its master facility plan. The plan calls for a complete renovation of the entire facility transforming it from predominantly inpatient care to a balance of inpatient and outpatient care.

The Corporation has been proactive with respect to managed care. The Corporation continues to participate in the Sagamore Health Network, Inc. and the Corporation's investment and participation in this network serves to both increase its market share due to the number of covered lives under the plan as well as to mitigate the effects of managed care. The Corporation is also a partner in the Catholic Managed Care Consortium, which provides extensive managed care consulting services to Catholic member organizations. For additional information see "Managed Care Initiatives" in this Appendix A.

### **Social Accountability and Community Benefit**

Social accountability is a major focus for the System and the System monitors on an annual basis its participation in and provision of charitable care services and community benefit programs. The ministry of the Corporation has the following central concerns: compassion for those in need; respect for life and the dignity of persons; wellness and the prevention of illness; restoration to health; and, the acceptance of death as the final step toward wholeness. Commitment to this mission is evident by the amount of care of the poor and community benefit provided by the System which for 1999 totalled \$92 million. In order to support these endeavours, the Corporation is keenly aware that it must maintain adequate levels of profitability and assets.

### **Centralization and Standardization of Processes**

**General.** The centralization and standardization of processes, policies and procedures, has been identified as a critical success factor for the System. In 1997, 1998 and 1999, certain key centralization/standardization projects discussed below were accomplished.

**Collection Services.** Alverno Receivables Services ("ARS") was established in 1992 to serve and enhance the accounts receivable collection processes for the System. The focus of ARS was to

maximize the overall net return to the System through the following: improved collections, lower cost of collections, improved public relations through the application of Franciscan values, elimination of duplication of effort, and utilization of advanced technologies, telephone communications and data processing. ARS was merged into Mutual Hospital Services, Inc. during 1999 to further enhance the collection services provided to the System.

**Centralized Cash Management and Investment Program.** During 1998, the Corporation implemented a centralized cash management and investment program. This program is coordinated through Ascension Health (formerly Daughters of Charity National Health System) with specific funds managed by professional investment firms. There are two types of funds within this program, the short term and the long term fund, which collectively are referred to as the Health System Depository ("HSD"). The short term fund is invested in a variety of fixed income instruments and approximately 70% of the short term fund is invested in instruments with the maximum maturity not to exceed one year. The long term fund currently has an asset allocation of 40% equities and 60% fixed income. At December 31, 1999, the Corporation had approximately \$606 million invested in the HSD. Through participation in this program the Corporation has experienced a reduction in investment management costs and increased returns on investments.

**Redesign and Centralization of Pension Plan.** During 1997, management spent a significant portion of time evaluating and redesigning the System's retirement plan to provide greater flexibility, coverage and understanding to a diverse employee group. Effective January 1, 1998, a single pension plan design was implemented throughout the System. In early 1999, further cost savings were achieved through the consolidation of multiple trustees and investment managers into a unified pension investment program. The direct result of the initiatives has been greater employee satisfaction and significant cost savings for the entire System.

**Standardized Information Systems.** During 1999, in conjunction with the implementation of new general ledger and materials management software, significant effort was expended to standardize general ledger and materials management accounts, files, and processes. The goals of this major effort are to improve efficiency, reduce data collection and reporting time lines and overall increase the ability of management to respond to changing conditions through more timely and accurate information. For 2000, the revenue cycle has been targeted for similar improvements in processes.

**Alverno Clinical Laboratory.** A primary management initiative for 1999 was the creation and implementation of the Alverno Clinical Laboratory, located in Hammond, Indiana. This facility is operated by Alverno Lab and is the first centralized laboratory of its kind in the Northwest Indiana region. This facility is also expected to provide services to health care providers outside of the System. System hospitals still maintain a laboratory on site; however the local hospital laboratories will also be managed by Alverno Lab. It is believed these initiatives will provide overall cost savings to the System and additional revenue from outside sources.

## **Shared Services**

The Corporation offers shared information technology services for the System primarily through CHM, which is a Designated Group Affiliate. The Corporation offers group purchasing services through an operating division referred to as Sisters of St. Francis Health Services Group Purchasing ("Group Purchasing"). In addition, The Hills Insurance Company, Ltd. ("Hills") a wholly owned subsidiary of the Corporation, which is not a member of the Obligated Group or a Designated Group Affiliate, provides a portion of the liability insurance coverage for the System. For further information, see the discussion of Hills under the caption "INSURANCE".

**Information Systems.** CHM provides information, management, consulting and other related data services for a comprehensive continuum of programs and services sponsored by the Corporation and its related corporations. Based on three decades of experience, CHM currently focuses its efforts on the following four critical information services areas: financial, clinical, management, and patient. CHM provides an array of clinical management services including medical records, ancillary results reporting and case management systems. CHM has implemented physician management, executive management reporting and electronic mail systems and has a point of care patient management system. Recently, CHM entered into an agreement with a major health information system vendor to replace several of its aging legacy systems including patient accounting, order entry, pharmacy, medical records and decision support. This implementation will be accomplished in three phases over the next two to three years. In addition, this new system will be integrated with a lifetime health care repository, focusing on patient management.

CHM is currently converting from a main frame environment with internally developed systems to multiple platforms with vendor developed systems. This migration will enable CHM to expand its expertise in implementing and supporting large vendor developed applications from main frame based systems to distributed (client/server) applications. In 1991, CHM commissioned a project referred to as InfoVision, which had as its primary focus reengineering patient centered processes in implementing new computer systems. Beginning with a conceptual model of the health care facility of the future, the integrated process moved through multiple phases in designing the future direction of CHM. This project resulted in the development of a new/replacement strategy which has guided CHM in its new system acquisitions over the past few years. Applications for managed care, physician support and home care are at the forefront in this strategy.

**Group Purchasing.** Group Purchasing was formed to obtain better pricing and discounts for supplies, equipment and services for the System. Additionally, Group Purchasing is charged with improving the management of the logistical processes involved in the movement of supplies in the System, from the time a product is ordered until it is ultimately utilized for patient care. In 1994, Group Purchasing joined with four other Catholic health care systems to found the Catholic Materials Management Alliance ("CMMA"). The goal of CMMA is to become the largest Catholic purchasing and materials management organization in the country. As of July 1, 1998, CMMA merged with Sisters of the Sorrowful Mother/Diversified Health Services and is now called Consorta. Group Purchasing is a shareholder of Consorta. This merger has significantly enlarged

the existing CMMA organization with nearly \$2 billion in annual purchasing volume. Consorta is the sixth largest health care group purchasing organization in the United States in overall volume and the third largest in purchases per acute care facility. Robert Waltz, Senior Vice President of Materials Management and Engineering Resources for the Corporation was the first chairman of the operating group for CMMA and is a member of the Board of Directors of Consorta. Consorta expects to achieve further cost reductions, to collaborate on the best practices, and to maintain a strong Catholic voice and identity in the supplier market place.

### **Managed Care Initiatives**

The 1999 Health Center Facilities participate in various managed care programs. The following paragraphs describe several of those significant managed care programs.

For example, the Corporation participates in the Sagamore Health Network, Inc. ("Sagamore") founded in 1985 through the efforts of the Corporation and St. Vincent Hospital and Health Care Centers, Inc. which is located in Indianapolis and is a member of Ascension Health. In 1987, two other owners were added, the Ancilla Development Corporation and the St. Joseph Care Group. Sagamore currently has three service lines: a preferred provider organization ("PPO"), a health maintenance organization (HMO) and a utilization review function. Sagamore first offered its PPO, a comprehensive network of hospitals, physicians and ancillary facilities throughout the State of Indiana, in 1985. Sagamore currently offers PPO services to over 600,000 covered lives. Sagamore began offering HMO services on January 1, 1996, and currently provides such services to 10,000 covered lives in the Indianapolis, Indiana area. Sagamore began its utilization review function in 1987 and is now accredited. Sagamore has implemented a fully automated comprehensive case management approach consisting of pre-admission review, concurrent review, discharge planning, case management and optional out-patient procedure pre-certification. Sagamore currently provides these services to over 14,000 covered lives. Sagamore provides services to members, 130 network hospitals, over 500 ancillary providers and over 6,500 contracted physicians.

The Corporation is a partner with nine other Catholic healthcare systems in the Catholic Managed Care Consortium ("CMCC"), with its corporate offices located in St. Louis, Missouri. CMCC provides a variety of managed care related services to the ten sponsoring Catholic healthcare systems and their hospitals, physician organizations and related entities. CMCC maintains a clinical pathways library, publishes a quarterly newsletter, issues guidelines for managed care agreements and provides extensive managed care consulting services to sponsoring facilities.

St. Francis Health Network, Inc. ("SFHN") is a taxable not for profit Indiana corporation created to arrange for the provision of healthcare services for its provider members, by negotiating and managing third party contracts. The corporate member of SFHN consists of the Sisters who are on the Board of Directors of AHC. The corporate member appoints the Board of SFHN, which consists of fifteen directors. Based on the recommendation of the current Board members, the corporate member appoints five directors as hospital representatives, five as physician

representatives and five community members who are familiar with healthcare issues from the perspective of an employer. SFHN currently focuses primarily on capitated payer agreements. SFHN serves nearly 25,000 covered lives.

The Corporation is one of four Indianapolis hospital organizations which received a Civil Investigative Demand on January 21, 2000 ("CID") regarding their Indianapolis facilities from the Antitrust Division of the United States Department of Justice to determine whether there is, has been, or may be a violation of Section 1 of the Sherman Act, 15 U.S.C. §1, by conduct, activities or proposed action resulting in agreements among hospitals having the purpose or effect of unreasonably restricting competition in the sale of health care services to managed care plans in and around Indianapolis. The Corporation is cooperating with the investigation and is in the process of responding to the CID. The Corporation is not aware of any basis upon which it would have liability under federal antitrust laws.

## **Discussion of Historical Financial Results**

### Fiscal Year 1997 Compared to Fiscal Year 1996.

For the fiscal year ended December 31, 1997, the Consolidated Group's excess of revenues over expenses increased from \$65.6 million in 1996 to \$88.1 million in 1997. Income from operations increased from \$32.4 million to \$38.7 million during this period, a 19.3% increase. The 19.3% increase was primarily due to the divestiture of unprofitable businesses, acquisition of the Memorial Facilities in Michigan City, and cost reductions achieved through consolidation of clinical services in local markets.

The Consolidated Group increased its cash and investments by 52.8% from \$515.8 million in 1996 to \$788.3 million in 1997. At December 31, 1997, cash and investments consisted of \$57.9 million of cash and short term investments, \$520.3 million of Board designated funds, \$91.8 million of insurance funds and \$118.3 million of funds held by bond trustees. Unrestricted cash and investments represented 295% of the Corporation's long-term debt as of December 31, 1997.

Net accounts receivable decreased by \$17.6 million in the fiscal year ended December 31, 1997. This decrease was mainly due to the divestiture of the St. Joseph Facilities and the St. Francis-Evanston Facilities. Total net accounts receivable of \$123.3 million as of December 31, 1997 represented 69 days in accounts receivable, an increase of six days from the 63 days in accounts receivable as of December 31, 1996. The Consolidated Group had approximately 8.9% and 11.5%, respectively, of its total assets in accounts receivable as of December 31, 1997 and 1996. The increase in days in accounts receivable is due to delays in payor payments and staffing challenges in medical records and business offices.



#### Fiscal Year 1998 Compared to Fiscal Year 1997.

For the fiscal year ended December 31, 1998, the Consolidated Group's excess of revenue over expenses of \$122.9 million represents a 39.5% increase from the same period in 1997. This increase was mainly attributable to management's change in strategy in its cash management program and the favorable results of the financial market. Investment income for 1998 amounted to \$87.8 million, an increase of 118.4% over the 1997 amount of \$40.2 million. Income from operations of \$37.3 million in 1998 was a slight decrease from the \$38.7 million achieved in 1997. Operating margin in 1998 of 4.7% exceeded the operating margin of 4.3% achieved in 1997. This was primarily the result of the divestiture of the St. Francis-Evanston Facilities and the St. Joseph Facilities effective November 30, 1997.

For the fiscal year ended December 31, 1998, total operating revenues of the Consolidated Group of \$792 million represents a 10.3% decrease from the same period in 1997. This decrease is attributable to the divestiture of the St. Joseph Facilities and the St. Francis-Evanston Facilities, effective November 30, 1997.

At December 31, 1998, unrestricted cash and investments for the Consolidated Group increased by \$115.9 million from \$569.1 million to \$685.0 million compared to December 31, 1997. Cash and cash equivalents consisted of \$108.9 million, while Board designated funds totaled \$575.7 million. In addition, the Consolidated Group had \$78.9 million of insurance funds and \$99.5 million of funds held by bond trustees. Unrestricted cash and investments represented 351% of the Consolidated Group's long term debt as of December 31, 1998.

#### Fiscal Year 1999 Compared to Fiscal Year 1998.

For the fiscal year ended December 31, 1999, the Consolidated Group's excess of revenues over expenses decreased to \$82.1 million in 1999 from \$122.9 million in 1998. Income from operations decreased to \$10.5 million in 1999 from \$37.3 million in 1998. These decreases were attributable to reduced investment earnings and increased contractual allowances on third party payor arrangements. The Balanced Budget Act of 1997 had a negative impact on operating income in 1999 as compared to 1998. Fiscal year 1999 operating income was also impacted by the following losses: impairment loss at the St. Anthony Memorial Facilities acquired in 1997 of \$4.8 million; exiting certain physician contracts at the Chicago Heights Facilities amounting to \$3.7 million; and losses incurred in the formation and first year operation of Alverno Lab of \$6.0 million.

For the fiscal year ended December 31, 1999, total operating revenues of the Consolidated Group of \$836.8 million represents a 5.7% increase from the 1998 net revenues of \$791.9 million. The revenue increase which resulted from the acquisition of the St. Anthony Medical Center-Crown Point Facilities and the St. Clare Facilities was offset by the reduction in revenue related to the change in ownership from the transfer of the St. Elizabeth Facilities to GLHS.

The Consolidated Group's unrestricted cash and investments decreased by 7.2% from \$685 million in 1998 to \$636 million in 1999. At December 31, 1999 cash and investments consisted of \$60.9 million of cash and short term investments; \$577.4 million of board designated funds; \$85.4 million of insurance funds; \$177.8 million of funds held by bond trustees and \$10.6 million of restricted investments and other. Unrestricted cash and investments represented 186% of the Corporation's long term debt at December 31, 1999. This is less than amounts experienced by the Corporation in 1998 and 1997 due to increased long term debt as a result of the acquisition of the St. Anthony Medical Center-Crown Point Facilities and the use of cash and investments related to the Midwest Health Ventures transaction.

### **ACCREDITATION**

The 1999 Health Center Facilities and the Mooresville Facilities are fully accredited by the Joint Commission on Accreditation of Health Care Organization ("JCAHO"). JCAHO accreditation must be renewed periodically. The Olympia Fields Facilities are accredited by the American Osteopathic Association which accreditation must be renewed periodically.

### **LICENSURE**

All 1999 Health Center Facilities, the Mooresville Facilities and the Olympia Fields Facilities comply with applicable licensing requirements and are Medicare and Medicaid certified. In addition, the 1999 Health Center Facilities, the Mooresville Facilities and the Olympia Fields Facilities are members of the appropriate state hospital associations and the Catholic Health Association.

### **INSURANCE**

Hills, the wholly owned captive insurance subsidiary of the Corporation, provides certain professional and corporate general liability coverage for the 1999 Health Center Facilities and other corporate entities. Hills purchases reinsurance coverage which limits the exposure on individual claims. See Appendix C for additional financial information on Hills.

In addition, the Corporation has obtained excess insurance coverage from several commercial companies. In addition, the Corporation has established a self-insured trust to provide long term disability and worker's compensation coverage for its employees. The Corporation maintains officers and directors liability policies and property insurance through policies with commercial insurance companies.

Management of the Corporation believes the above referenced insurance is in amounts consistent with the levels generally carried by similarly situated health care entities.

## **APPENDIX B**

- APPENDIX B-1      INFORMATION CONCERNING THE ST. ANTHONY MEDICAL  
CENTER - CROWN POINT FACILITIES**
- APPENDIX B-2      INFORMATION CONCERNING THE ST. CLARE FACILITIES**
- APPENDIX B-3      INFORMATION CONCERNING THE OLYMPIA FIELDS  
FACILITIES**
- APPENDIX B-4      INFORMATION CONCERNING THE MOORESVILLE  
FACILITIES**

## **APPENDIX B-1**

### **INFORMATION CONCERNING THE ST. ANTHONY MEDICAL CENTER - CROWN POINT FACILITIES**

#### **GENERAL**

On March 1, 1999, the Corporation acquired the St. Anthony Medical Center - Crown Point Facilities. The St. Anthony Medical Center - Crown Point Facilities are licensed to operate 411 acute services beds and 22 bassinets. Currently 200 beds (exclusive of the bassinets) are in operation for acute care and 30 are in operation for rehabilitation services.

Capitalized terms not defined herein are defined elsewhere in this Official Statement (including the Appendices).

#### **MEDICAL STAFF**

The following table sets forth the medical staff complement and the average age of physicians at the St. Anthony Medical Center - Crown Point Facilities as of December 31, 1999:

**Medical Staff Complement as of  
December 31, 1999<sup>1</sup>**

<u>Active</u>	<u>Associate</u>	<u>Other</u>	<u>Total</u>	<u>Average Age</u>
243	75	20	338	45

#### **SUPPORT STAFF AND OTHER EMPLOYEES**

The following table sets forth the full-time equivalent personnel at the St. Anthony Medical Center - Crown Point Facilities as of December 31, 1997 and as of December 31, 1998<sup>1</sup>.

<u>December 31, 1997</u>	<u>December 31, 1998</u>
1053	934

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<sup>1</sup>Source: SAMC Records

## UTILIZATION

The following table sets forth certain utilization data for the St. Anthony Medical Center - Crown Point Facilities for the fiscal years ended June 30, 1997 and 1998 and the eight month periods beginning July 1, 1997 and 1998 and ending February 28, 1998 and 1999<sup>1</sup>:

	Fiscal Years		Eight Months	
	<u>Ended June 30,</u>		<u>Ended February 28,</u>	
	<u>1997</u>	<u>1998</u>	<u>1998</u>	<u>1999</u>
Average Staffed Beds	248	232	232	251
Discharges	9,171	8,474	5,613	5,676
Patient Days	41,570	37,127	24,141	24,782
Average Length of Stay (Days)	4.4	4.3	4.2	4.3
Average Daily Census	113.9	101.7	99.3	101.6
Occupancy	45.9%	43.8%	42.8%	40.3%
Case Mix Index <sup>2</sup>	1.4648	1.4869	1.4648	1.4254
Adjusted Discharges	13,953	13,541	8,948	9,146

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<sup>1</sup>Source: SAMC Records

<sup>2</sup>Medicare Case Mix Index

## FINANCIAL INFORMATION

### Summary of Revenues and Expenses

The following selected financial data for the fiscal years ended June 30, 1997 and 1998 were derived from the audited financial statements of SAMC. The financial data for the eight month periods beginning July 1, 1997 and 1998 and ending February 28, 1998 and 1999 were derived from the unaudited financial statements of SAMC for such periods and include all adjustments management considers necessary to present such information in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements.

#### Summary of Revenues and Expenses for SAMC (\$ in thousands)

	Fiscal Years Ended June 30,		Eight Months Ended February 28,	
	<u>1997</u>	<u>1998</u>	<u>1998</u>	<u>1999</u>
Net Patient Service Revenue	\$ 87,579	\$ 86,363	\$ 57,113	\$ 58,577
Other Revenue	<u>12,112</u>	<u>15,207</u>	<u>7,019</u>	<u>10,971</u>
Total Revenue	99,691	101,570	64,132	69,548
Total Expenses	<u>93,932</u>	<u>94,540</u>	<u>59,399</u>	<u>63,075</u>
Revenues in Excess of Expenses Before Curtailment Gain	5,759	7,030	4,733	6,473
Curtailment Gain	<u>0</u>	<u>957</u>	<u>0</u>	<u>0</u>
Revenue Excess of Expenses	\$ <u>5,759</u>	\$ <u>7,987</u>	\$ <u>4,733</u>	\$ <u>6,473</u>

## Sources of Revenue

Payments to SAMC are made on behalf of certain patients by Blue Cross, commercial insurance carriers, managed care organizations and the Federal and State governments under Medicare and Medicaid programs. A percentage breakdown by source of gross revenue for SAMC is presented below<sup>1</sup>:

	<u>Fiscal Years Ended June 30,</u>		<u>Eight Months Ended</u>
	<u>1997</u>	<u>1998</u>	<u>February 28,</u> <u>1999</u>
Medicare	49.7%	48.9%	47.2%
Medicaid	4.5	3.9	4.2
Blue Cross	8.5	9.3	10.2
Managed Care	19.5	21.0	21.8
Other Commercial	11.5	10.6	11.3
Self Pay & Other	<u>6.3</u>	<u>6.3</u>	<u>5.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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<sup>1</sup>Source: SAMC Records

## APPENDIX B-2

### INFORMATION CONCERNING THE ST. CLARE FACILITIES

#### GENERAL

Effective October 1, 1999, the Corporation acquired the St. Clare Facilities. The St. Clare Facilities are licensed to operate 76 acute care services beds, 17 geriatric psychology beds and 17 skilled nursing beds. 10 beds are in operation for rehabilitation services.

Capitalized terms not defined herein are defined elsewhere in this Official Statement (including the Appendices).

#### MEDICAL STAFF

The following table sets forth the medical staff complement and the average age of physicians at the St. Clare Facilities as of December 31, 1999:

**Medical Staff Complement as of  
December 31, 1999<sup>1</sup>**

<u>Active</u>	<u>Associate</u>	<u>Other</u>	<u>Total</u>	<u>Average Age</u>
35	42	24	101	45

#### SUPPORT STAFF AND OTHER EMPLOYEES

The following table sets forth the full-time equivalent personnel at the St. Clare Facilities as of December 31, 1997 and 1998 and for the nine month period beginning January 1, 1999 and ending September 30, 1999:

<u>December 31, 1997</u>	<u>December 31, 1998</u>	<u>Nine months ending September 30, 1999</u>
331	325	321

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<sup>1</sup>Source: St. Clare Records



## UTILIZATION

The following table sets forth certain utilization data for the St. Clare Facilities at December 31, 1997 and 1998 and for the nine month period beginning January 1, 1999 and ending September 30, 1999<sup>1</sup>:

	<u>December 31,</u>		<u>Nine months ending</u> <u>September 30,</u>
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Average Staffed Beds	87	87	87
Discharges	3,350	3,535	2,412
Patient Days	15,878	16,401	12,012
Average Length of Stay (Days)	4.7	4.6	4.98
Average Daily Census	43.5	44.9	44.0
Occupancy	50%	51.6%	50.5%
Case Mix Index <sup>2</sup>	n/a	n/a	n/a

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<sup>1</sup>Source: St. Clare Records

<sup>2</sup>Medicare Case Mix Index

## SOURCES OF REVENUE

Payments to St. Clare are made on behalf of certain patients by Blue Cross, commercial insurance carriers, managed care organizations and the Federal and State governments under Medicare and Medicaid programs. A percentage breakdown by source of gross revenue for St. Clare is presented below<sup>1</sup>:

	<u>December 31,</u>		<u>Nine months ending</u>
	<u>1997</u>	<u>1998</u>	<u>September 30,</u>
			<u>1999</u>
Medicare	52.1%	53.2%	51.3%
Medicaid	3.8	4.7	6.0
Blue Cross	5.0	5.5	5.5
Managed Care	17.2	18.3	22.1
Other Commercial	<u>21.9</u>	<u>18.3</u>	<u>15.1</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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<sup>1</sup>Source: St. Clare Records

## APPENDIX B-3

### INFORMATION CONCERNING THE OLYMPIA FIELDS FACILITIES

#### GENERAL

Effective January 8, 2000, the Corporation acquired the Olympia Fields Facilities. The Olympia Fields Facilities are licensed to operate 200 acute care services beds. The Olympia Fields Seller was a for-profit operator.

Capitalized terms not defined herein are defined elsewhere in this Official Statement (including the Appendices).

#### MEDICAL STAFF

The following table sets forth the medical staff complement and the average age of physicians at the Olympia Fields Facilities as of December 31, 1999:

**Medical Staff Complement as of  
December 31, 1999<sup>1</sup>**

<u>Active</u>	<u>Associate</u>	<u>Other</u>	<u>Total</u>	<u>Average Age</u>
155	32	95	282	48

#### SUPPORT STAFF AND OTHER EMPLOYEES

The following table sets forth the full-time equivalent personnel at the Olympia Fields Facilities as of December 31, 1997, 1998 and 1999:

<u>December 31, 1997</u>	<u>December 31, 1998</u>	<u>December 31, 1999</u>
756	758	730

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<sup>1</sup>Source: Olympia Fields Facilities Records

## UTILIZATION

The following table sets forth certain utilization data for the Olympia Fields Facilities at December 31, 1997, 1998 and 1999<sup>1</sup>:

	<u>December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Average Staffed Beds	185	181	179
Discharges	n/a	6,487*	6,072*
Patient Days	30,185	29,238*	27,414*
Average Length of Stay (Days)	4.80	4.57	4.5
Average Daily Census	82.7	81.15	75.11
Occupancy	51.37%	52.02%	50.07%
Case Mix Index <sup>2</sup>	1.57	1.58	1.77

\*without nursery

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<sup>1</sup>Source: Olympia Fields Facilities Records

<sup>2</sup>Medicare Case Mix Index

## SOURCES OF REVENUE

Payments for services provided at the Olympia Fields Facilities are made on behalf of certain patients by Blue Cross, commercial insurance carriers, managed care organizations and the Federal and State governments under Medicare and Medicaid programs. A percentage breakdown by source of gross revenue is presented below<sup>1</sup>:

	<u>December 31,</u>	
	<u>1998</u>	<u>1999</u>
Medicare	33%	33%
Medicaid	11	12
Blue Cross	2	2
Managed Care	38	41
Other Commercial	10	8
Self Pay & Other	<u>6</u>	<u>4</u>
Total	<u>100%</u>	<u>100%</u>

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<sup>1</sup>Source: Olympia Fields Facilities Records

## **APPENDIX B-4**

### **INFORMATION CONCERNING THE MOORESVILLE FACILITIES**

#### **GENERAL**

Effective January 15, 2000, the Corporation acquired the Mooresville Facilities. This acquisition was effective for accounting purposes as of January 1, 2000. The Mooresville Facilities are licensed to operate 47 acute care services beds. The Mooresville Seller was a 501(c)(3) Entity.

Capitalized terms not defined herein are defined elsewhere in this Official Statement (including the Appendices).

#### **MEDICAL STAFF**

The following table sets forth the medical staff complement and the average age of physicians at the Mooresville Facilities as of December 31, 1999:

**Medical Staff Complement as of  
December 31, 1999<sup>1</sup>**

<u>Active</u>	<u>Associate</u>	<u>Other</u>	<u>Total</u>	<u>Average Age</u>
22	2	82	106	43

#### **SUPPORT STAFF AND OTHER EMPLOYEES**

The following table sets forth the full-time equivalent personnel at the Mooresville Facilities as of December 31, 1997, 1998 and 1999:

<u>December 31, 1997</u>	<u>December 31, 1998</u>	<u>December 31, 1999</u>
270	331	385

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<sup>1</sup>Source: Mooresville Facilities Records

## UTILIZATION

The following table sets forth certain utilization data for the Mooresville Facilities at December 31, 1997, 1998 and 1999<sup>1</sup>:

	<u>December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Average Staffed Beds (excludes SNIF)	45	45	45
Discharges	1,405	1,419	1,315
Patient Days	7,238	7,306	6,663
Average Length of Stay (Days)	5.2	5.1	5.1
Average Daily Census	19.8	20.0	18.3
Occupancy	44%	44%	41%
Case Mix Index <sup>2</sup>	2.246	2.214	2.084

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<sup>1</sup>Source: Mooresville Facilities Records

<sup>2</sup>Medicare Case Mix Index

## Sources of Revenue

Payments for services provided at the Mooresville Facilities are made on behalf of certain patients by Blue Cross, commercial insurance carriers, managed care organizations and the Federal and State governments under Medicare and Medicaid programs. A percentage breakdown by source of gross revenue is presented below<sup>1</sup>:

	<u>December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Medicare	53.92%	54.22%	51.19%
Medicaid	1.05	1.11	1.03
Blue Cross	11.56	13.76	16.47
Managed Care	—	—	—
Other Commercial	32.05	28.83	27.39
Self Pay & Other	<u>1.42</u>	<u>2.08</u>	<u>3.92</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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<sup>1</sup>Source: Mooresville Facilities Records



**APPENDIX C**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF  
SISTERS OF ST. FRANCIS HEALTH SERVICES, INC.**

**SISTERS OF ST. FRANCIS HEALTH  
SERVICES, INC. AND AFFILIATES**

**REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL FINANCIAL INFORMATION**

**FOR THE YEARS ENDED DECEMBER 31, 1999 and 1998**

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

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## Report of Independent Accountants

Board of Directors  
Sisters of St. Francis Health Services, Inc.  
Mishawaka, Indiana

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets, and of cash flows present fairly, in all material respects, the financial position of Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation") at December 31, 1999 and 1998, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*PricewaterhouseCoopers LLP*

April 4, 2000

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Consolidated Balance Sheets

December 31, 1999 and 1998

(In thousands)

ASSETS	1999	1998	LIABILITIES AND NET ASSETS	1999	1998
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 58,750	\$ 108,990	Short-term borrowings	\$ 125,800	\$ -
Short-term investments	53,236	1,247	Current portion of long-term debt	12,150	8,051
Patient accounts receivable, net of allowance for doubtful accounts of \$42,208 in 1999 and \$31,684 in 1998	134,869	123,869	Accounts payable and accrued expenses	77,423	55,389
Inventories of supplies	11,863	10,463	Accrued payroll and related expenses	34,990	29,483
Estimated third-party payor settlements	-	3,896	Estimated third-party payor settlements	18,551	20,389
Other current assets	39,332	26,015			
Total current assets	298,050	274,480	Total current liabilities	268,914	113,312
Investments, including assets limited as to use	800,111	763,764	Long-term debt, net of current portion	342,778	195,122
Property, plant and equipment, net	547,281	423,677	Other liabilities	33,246	22,279
Investment in and advances to Greater Lafayette Health Services, Inc.	122,945	-	Estimated insurance liabilities	41,221	49,515
Intangible assets, net of accumulated amortization of \$5,087 in 1999 and \$1,953 in 1998	86,270	13,644	Total liabilities	686,159	380,228
Other assets	46,319	39,100	Net assets:		
			Unrestricted	1,196,872	1,123,597
			Temporarily restricted	9,911	4,994
			Permanently restricted	8,034	5,846
			Total net assets	1,214,817	1,134,437
Total assets	\$ 1,900,976	\$ 1,514,665	Total liabilities and net assets	\$ 1,900,976	\$ 1,514,665

The accompanying notes are an integral part of the consolidated financial statements.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Consolidated Statements of Operations

for the years ended December 31, 1999 and 1998

(In thousands)

	1999	1998
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 673,632	\$ 630,947
Premium revenue	41,403	33,577
Other operating revenue	120,714	127,074
Net assets released from restrictions used for operations	1,085	270
Total revenues, gains and other support	<u>836,834</u>	<u>791,868</u>
Operating expenses:		
Salaries	344,255	306,297
Employee benefits	70,372	69,621
Physicians' compensation	12,588	7,640
Utilities	16,110	12,506
Repairs and maintenance	11,990	13,306
Drugs and pharmaceuticals	45,323	45,688
Insurance	4,343	2,804
Other supplies and expenses	210,749	202,392
Provision for doubtful accounts	32,460	29,876
Interest	17,144	12,115
Depreciation and amortization	60,986	52,346
Total expenses	<u>826,320</u>	<u>754,591</u>
Operating income	<u>10,514</u>	<u>37,277</u>
Other income (expense):		
Investment income	63,380	87,829
Equity in earnings of Greater Lafayette Health Services, Inc.	10,693	-
Contributions	(505)	798
Gain (loss) on sale of assets	3,439	(646)
Other, net	(6,038)	(2,958)
Net assets released from restrictions	632	576
Total other income, net	<u>71,601</u>	<u>85,599</u>
Excess of revenues over expenses	82,115	122,876
Change in net unrealized investment gains and losses	(6,540)	(21,894)
Equity transfers to affiliates, net	(745)	(518)
Equity distribution to Mercy Health Services	(1,755)	(1,755)
Beginning net assets of Alverno and Foundation, previously not consolidated	-	13,791
Contributions of property, plant and equipment	-	3
Net assets released from restrictions used for purchase of property, plant and equipment	200	429
Increase in unrestricted net assets	<u>\$ 73,275</u>	<u>\$ 112,932</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Statements of St. Francis Health Services, Inc. and Affiliates

## Consolidated Statements of Changes in Net Assets

for the years ended December 31, 1999 and 1998

(In thousands)

	1999	1998
Unrestricted net assets:		
Excess of revenues over expenses	\$ 82,115	\$ 122,876
Change in net unrealized investment gains and losses	(6,540)	(21,894)
Equity transfers to affiliates, net	(745)	(518)
Equity distribution to Mercy Health Services	(1,755)	(1,755)
Beginning net assets of Alverno and Foundation, previously not consolidated	-	13,791
Contributions of property, plant and equipment	-	3
Net assets released from restrictions used for purchase of property, plant and equipment	200	429
	<u>73,275</u>	<u>112,932</u>
Increase in unrestricted net assets		
Temporarily restricted net assets:		
Contributions	1,978	1,138
Investment income	947	117
Net assets released from restrictions	(1,947)	(1,326)
Beginning net assets of Foundation, previously not consolidated	-	1,509
Change in net unrealized investment gains and losses	156	69
Other	3,783	-
	<u>4,917</u>	<u>1,507</u>
Increase in temporarily restricted net assets		
Permanently restricted net assets:		
Contributions	312	45
Investment income	8	-
Net assets released from restrictions	30	51
Beginning net assets of Foundation, previously not consolidated	-	299
Change in net unrealized investment gains and losses	589	-
Other	1,249	-
	<u>2,188</u>	<u>395</u>
Increase in permanently restricted net assets		
Minimum pension liability adjustment	-	715
	<u>80,380</u>	<u>115,549</u>
Increase in net assets		
Net assets, beginning of the year	1,134,437	1,018,888
Net assets, end of the year	<u>\$ 1,214,817</u>	<u>\$ 1,134,437</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Consolidated Statements of Cash Flows

for the years ended December 31, 1999 and 1998

(In thousands)

	1999	1998
Cash flows from operating activities:		
Increase in net assets	\$ 80,380	\$ 115,549
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	57,610	51,281
Amortization of deferred financing costs and other intangible assets	3,376	1,065
Provision for doubtful accounts	32,460	29,876
(Gain) loss on sale of assets	(3,439)	646
Net realized and unrealized losses (gains) on investments	6,012	(25,717)
Equity in earnings and equity in increase of restricted net assets of Greater Lafayette Health Services, Inc.	(13,370)	-
Restricted and capital contributions	(736)	(1,186)
Equity distribution to Mercy Health Services	1,755	1,755
Equity transfers to affiliates, net	745	518
Other	1,224	-
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Patient accounts receivable	(43,192)	(38,541)
Inventories of supplies	(2,303)	451
Accounts payable and accrued expenses	15,829	23,102
Accrued payroll and related expenses	3,128	(3,557)
Estimated third-party payor settlements, net	2,816	(2,069)
Estimated insurance liabilities	(7,994)	(4,784)
Other	(8,102)	1,037
Total adjustments	45,819	33,877
Net cash provided by operating activities	126,199	149,426
Cash flows from investing activities:		
Purchase of property, plant and equipment	(88,379)	(65,577)
Acquisitions of businesses, net of cash acquired	(230,673)	(18,393)
(Increase) decrease in investments and assets whose use is limited	(122,519)	181
Proceeds from sale of property, plant and equipment	12,320	853
Equity transfers to affiliates, net	(745)	(518)
Investments in and loans to affiliate, net	(8,255)	(1,299)
Net cash used in investing activities	(438,251)	(84,753)
Cash flows from financing activities:		
Proceeds from short-term borrowings	125,800	-
Proceeds from issuance of long-term debt	150,000	-
Principal payments on long-term debt	(11,914)	(4,016)
Payment of equity distribution to Mercy Health Services	(1,755)	(1,639)
Restricted and capital contributions	736	1,186
Cash paid for financing fees	(1,055)	-
Net cash provided by (used in) financing activities	261,812	(4,469)
Net (decrease) increase in cash and cash equivalents	(50,240)	60,204
Cash and cash equivalents, beginning of year	108,990	48,786
Cash and cash equivalents, end of year	\$ 58,750	\$ 108,990

The accompanying notes are an integral part of the consolidated financial statements.



# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **1. Description of Organization and Summary of Significant Accounting Policies**

#### **Organization**

The Sisters of St. Francis Health Services, Inc. (the "Corporation") is a not-for-profit corporation which provides health care and related services to the communities in which it operates. At December 31, 1999, the Corporation was comprised of six health centers (the "Health Centers"), one nursing home (the "Nursing Home"), Catholic Health Midwest, Inc. (an information services division), Hills Insurance Company, Ltd. (a captive insurance company), Alverno Construction Corporation ("ACC"), Alverno Clinical Laboratories, Inc. ("ACL") and other related administrative divisions. St. Francis Healthcare Foundation ("Foundation") and Alverno Health Corporation and its wholly-owned subsidiaries (collectively referred to as "Alverno") are also included in the Corporation's consolidated financial statements since the Corporation is deemed to have an economic interest and control of the Foundation and Alverno. The Foundation raises funds on behalf of the Corporation and its affiliates. Alverno consists of various physician and clinical service entities. Prior to January 1, 1998, the Corporation had elected not to consolidate the financial statements of the Foundation and Alverno, which was a variance from generally accepted accounting principles; however, the effect of not consolidating these entities was not material to the Corporation's consolidated financial statements. The Corporation and its consolidated affiliates also have equity investments in other unconsolidated affiliates. The sponsorship of the Corporation is under the governance of the Sisters of St. Francis of Perpetual Adoration. All significant transactions and accounts between the affiliates are eliminated in consolidation.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash, repurchase agreements, money market accounts, certificates of deposit and all highly liquid debt instruments having original maturities of three months or less. Funds whose use is limited by Board designation or other restrictions are excluded. The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments. A portion of the Corporation's cash and cash equivalents are held by various financial institutions in denominations in excess of federally insured limits.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **1. Description of Organization and Summary of Significant Accounting Policies, continued**

#### **Inventories of Supplies**

Inventories of supplies are stated at the lower of cost or market. Cost is determined by the first-in, first-out method for approximately 60% and 73% of the inventories at December 31, 1999 and 1998, respectively. Cost for the remaining inventories is determined by either the last-in, first-out method or the average cost method.

#### **Investments and Assets Limited As to Use**

Investments, including investments which comprise assets limited as to use, are valued as follows: cash and cash equivalents at cost, which approximates market; marketable debt securities, guaranteed investment contracts, marketable equity securities, mutual funds and pooled funds at fair value. The fair values of investments are estimated based on quoted market prices for these investments or similar investments. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

Assets limited as to use include trustee-held assets under indenture agreements, designated assets set aside by the Board of Directors for future capital improvements and services for the poor over which the Board retains control and may at its discretion subsequently use for other purposes, assets held for estimated insurance liabilities, and assets held for other restrictive purposes.

#### **Unconsolidated Affiliates**

Investments in affiliates of less than 20% are accounted for by the cost method. Investments in affiliates of 20% to 50% are accounted for using the equity method.

#### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost or, if donated, at the fair value at the date of donation. Costs of maintenance and repairs are charged to expense when incurred; costs of renewals and betterments are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **1. Description of Organization and Summary of Significant Accounting Policies, continued**

#### **Consolidated Statements of Cash Flows**

Supplemental disclosure of cash flow information and noncash investing and financing activities are summarized as follows:

Cash paid during the year for interest, net of amounts capitalized, amounted to \$10,749,000 and \$9,822,000 for the years ended December 31, 1999 and 1998, respectively.

Cash paid for income taxes amounted to \$249,000 and \$522,000 for the years ended December 31, 1999 and 1998, respectively.

Net assets, excluding cash and cash equivalents, of St. Elizabeth Medical Center exchanged for a 50% interest in Greater Lafayette Health Services, Inc. amounted to \$79,908,000.

The Corporation accrued equity distributions of \$1,755,000 in 1999 and 1998, to Mercy Health Services (see Note 9), which are recorded as liabilities at December 31, 1999 and 1998.

Included in accounts payable at December 31, 1999 and 1998 are \$8,486,000 and \$1,547,000, respectively, of costs related to construction in progress and the acquisition of property, plant and equipment.

Included in noncurrent liabilities at December 31, 1999 are \$6,202,000 of costs related to construction in progress and the acquisition of property, plant and equipment.

Liabilities assumed in business acquisitions during the years ended December 31, 1999 and 1998 approximated \$29,751,000 and \$5,097,000, respectively. A \$7,550,000 promissory note was issued in connection with a business acquisition in 1998.

The Corporation's acquisitions and dispositions included certain noncash activities (see Note 11).

#### **Deferred Financing Costs**

Deferred financing costs incurred in connection with the issuance of debt are amortized using the straight-line method over the term of the debt, which is not materially different than the bonds outstanding method.

#### **Intangible Assets**

The excess of acquisition cost over fair value of acquired assets, covenants not to compete, clinic service agreements and other intangible assets are amortized on a straight-line basis over periods ranging from 5 to 30 years.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **1. Description of Organization and Summary of Significant Accounting Policies, continued**

#### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

During 1999 and 1998, net assets of \$1,947,000 and \$1,326,000, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes.

#### **Excess of Revenues Over Expenses**

The consolidated statements of operations includes excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses consistent with industry practice, include distributions to the Corporation's sponsor; change in net unrealized investment gains and losses on other than trading securities; permanent transfers of assets to and from affiliates for other than goods and services; and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

#### **Charity Care**

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **1. Description of Organization and Summary of Significant Accounting Policies, continued**

#### **Net Patient Service Revenue**

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursement costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

#### **Premium Revenue**

The Corporation and its affiliates have agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Corporation and its affiliates receive monthly capitation payments based on the number of each HMO's participants regardless of services actually performed by the Corporation and its affiliates. In addition, the HMOs make fee-for-service payments to the Corporation and its affiliates for certain covered services based upon discounted fee schedules.

#### **Tax Status**

The Corporation and its affiliates, except for ACC, Midwest Health Ventures, Inc., St. Francis Health Network, and Franciscan Holding Corporation which are corporations subject to federal and state income taxes, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"), and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

#### **Reclassifications**

Certain 1998 amounts have been reclassified to conform with the current reporting format. The reclassifications had no effect on net assets, excess revenues over expenses, or increase in net assets as previously reported.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 2. Net Patient Service Revenue, Patient Accounts Receivable and Concentration of Credit Risk

A summary of the payment arrangements with major third-party payors follows:

- **Medicare** – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services, home health services, rehabilitation services, psychiatric services and defined capital and medical education costs related to Medicare beneficiaries, are paid based on a cost reimbursement methodology, subject to certain limitations. The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Corporation and audit thereof by the Medicare fiscal intermediary.
- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospectively determined rates-per-discharge and outpatient services are reimbursed on a fee for service basis based on predetermined fee schedules.

Reported costs and services provided under the reimbursement arrangements with Medicare are subject to retroactive audit and adjustment. Provision has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and estimated total payments to be received from third-party payors. Management believes that adjustments, if any, which ultimately may result from final determination of amounts to be received under these contracts should not have a material effect on the consolidated financial statements.

The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis of payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

For the years ended December 31, 1999 and 1998, approximately 92% and 93%, respectively, of net patient service revenue is subject to the provisions of third-party payor contracts.

The Health Centers and Nursing Home grant credit without collateral to patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 1999 and 1998, was as follows:

	1999		1998	
Medicare	31	%	34	%
Medicaid	11		11	
Other third-party payors	50		46	
Patients	8		9	
	<u>100</u>	%	<u>100</u>	%

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 3. Charity Care and Social Accountability

The Corporation and its member Health Centers are not-for-profit health care providers established to meet the health care needs of area residents and are legally required to provide emergency services before determining the source of payment. Further, care is provided without charge or at amounts less than established rates to patients who meet certain criteria under various charity care policies. Because collection is not pursued, amounts determined to qualify as charity care are not reported as revenue. The Health Centers maintain records to identify and monitor the level of charity care they provide. The amount of charity care provided during the years ended December 31, 1999 and 1998 at the Health Centers' established rates approximated \$27.6 million and \$26.1 million, respectively.

In addition to charity care, the Corporation and its member Health Centers also incurred a shortfall from services rendered to patients covered by certain public programs. This shortfall is defined as the cost of providing services to Medicaid and Medicare beneficiaries in excess of government payments. In addition, the Corporation and its member Health Centers provided other community benefits including community education and research. The public programs' shortfalls and other community benefits approximate \$92.2 million (unaudited) for 1999 and \$78.6 million (unaudited) for 1998.

### 4. Investments and Assets Limited As to Use

The composition of investments, including assets limited as to use, at December 31, 1999 and 1998 is as follows:

	1999 (in thousands)	1998 (in thousands)
Assets held by bond trustees	\$ 177,777	\$ 99,526
Assets held for estimated insurance liabilities	85,387	78,914
Board designated for services for the poor	3,007	2,926
Board designated funded depreciation and other Board projects	574,398	572,805
Other restricted assets	12,778	10,840
	<u>\$ 853,347</u>	<u>\$ 765,011</u>

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 4. Investments and Assets Limited As to Use, continued

Investments, which comprise assets limited as to use, at December 31, 1999 and 1998, consist of the following:

	1999 (in thousands)	1998
Cash and cash equivalents	\$ 4,948	\$ 20,840
Pooled funds	575,257	506,054
Obligations of the U. S. Government and its agencies	85,167	93,982
Guaranteed investment contracts	177,777	99,526
Corporate debt obligations	180	15,500
Marketable equity securities	101	10,449
Mutual funds	430	5,285
Other	9,487	13,375
Totals	853,347	765,011
Less short-term investments	53,236	1,247
Investments, classified as noncurrent	<u>\$ 800,111</u>	<u>\$ 763,764</u>

At December 31, 1999 and 1998, approximately \$31 million and \$43 million, respectively, of the Corporation's cash and cash equivalents (included in current assets) and \$575 million and \$506 million of the Corporation's investments are invested in two pooled accounts coordinated through Ascension Health System's (formally known as the Daughters of Charity National Health System) Health System Depository (the "HSD") under cash and investment management agreements. The custodian-held assets are managed by professional investment firms and there are two types of funds within this program, the short-term fund and the long-term fund. The short-term fund is invested in a variety of fixed income investments and approximately 70% of the short-term fund is invested in instruments with the maximum maturity not to exceed one year. The long-term fund currently has an asset allocation of 40% equities, 55% fixed income and 5% cash and cash equivalents. The HSD operates the investment pools using the market value method. Under this method, net earnings of the HSD are allocated to investing participants on a pro-rata basis. The Corporation's interest in the pooled accounts is included in the financial statements at the fair value of the underlying investments based on quoted market prices.



# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 4. Investments and Assets Limited As to Use, continued

Return on investments was as follows for the years ended December 31, 1999 and 1998:

	1999	1998
	(in thousands)	
Income:		
Board designated funds and assets held for estimated insurance liabilities	\$ 62,852	\$ 40,218
Net realized gains on sales of securities	528	47,611
Investment income	63,380	87,829
Assets held by bond trustees, included in other operating revenue	5,479	6,459
	<u>\$ 68,859</u>	<u>\$ 94,288</u>
Other changes in unrestricted net assets:		
Change in net unrealized investment gains and losses	<u>\$ (6,540)</u>	<u>\$ (21,894)</u>

### 5. Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 1999 and 1998 follows:

	1999	1998
	(in thousands)	
Land and land improvements	\$ 45,653	\$ 48,969
Buildings and building equipment	588,630	517,048
Departmental equipment	336,206	322,234
Construction in progress	33,014	17,236
	<u>1,003,503</u>	<u>905,487</u>
Less accumulated depreciation	<u>456,222</u>	<u>481,810</u>
	<u>\$ 547,281</u>	<u>\$ 423,677</u>

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 6. Debt

#### Short-Term Borrowings

Short-term borrowings at December 31, 1999 consist of the following:

	1999 (in thousands)
Indiana Health Facility Financing Authority:	
Hospital Revenue Notes, Series 1999, Sisters of St. Francis Health Services, Inc. Project, interim financing dated September 29, 1999, principal payable in full on June 30, 2000, with interest payable monthly at a per annum rate equal to the BMA Municipal Swap Index plus 50 basis points	\$ 66,900
Hospital Revenue Notes, Series 1999B, Sisters of St. Francis Health Services, Inc. Project, interim financing dated December 16, 1999, principal payable in full on September 1, 2000, with interest payable monthly at a per annum rate equal to the BMA Municipal Swap Index plus 60 basis points	20,000
Illinois Development Finance Authority:	
Hospital Revenue Notes, Series 1999C, Sisters of St. Francis Health Services, Inc. Project, interim financing dated December 16, 1999, principal payable in full on September 1, 2000, with interest payable monthly at a per annum rate equal to the BMA Municipal Swap Index plus 60 basis points	31,000
Bank line of credit	7,900
Short-term borrowings	<u>\$ 125,800</u>

The carrying value of the Corporation's short-term borrowings at December 31, 1999 approximates its fair value.

#### Series 1999 Hospital Revenue Notes

In September 1999, the Corporation, in connection with the Indiana Health Facility Financing Authority issued \$66,900,000 of Series 1999 Hospital Revenue Notes. The proceeds of the notes were used to provide interim financing to acquire Culver Union Hospital, Crawfordsville, Indiana and to pay certain costs of issuance of the Series 1999 Notes (see Note 11).

In December 1999, the Corporation, in connection with the Indiana Health Facility Financing Authority and the Illinois Development Finance Authority issued \$51,000,000 of Series 1999B and 1999C Hospital Revenue Notes. The proceeds of the notes were used to provide interim financing to acquire Kendrick Memorial Hospital in Mooresville, Indiana and Olympia Fields Regional Osteopathic Medical Center in Olympia Fields, Illinois (see Note 13); to finance the costs of renovations, acquisitions and installation of equipment at certain of the Corporation's member Health Centers; and to pay certain costs of issuance related to the Series 1999B and 1999C Notes.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 6. Debt, continued

#### Issuance of Line of Credit

On November 24, 1999, the Corporation entered into a credit agreement with Bank One, Indiana, N.A. under which it may borrow up to \$75,000,000 to be used by the Corporation for working capital, capital expenditures, and acquisition purposes. The credit agreement is available for 364 days through November 22, 2000 with loans drawn under the agreement maturing 364 days following the borrowing date with respect to such loan. Loans under the agreement may be made under a selection of rate formulas including the Alternate Base Rate Loan or the Eurodollar Loan. At December 31, 1999, short-term borrowings supported by the credit agreement totaled \$7,900,000 leaving unused and available credit of \$67,100,000. The rate of interest at December 31, 1999 was 6.56%.

#### Long-Term Debt

Long-term debt at December 31, 1999 and 1998 consists of the following:

	1999 (in thousands)	1998
Indiana Health Facility Financing Authority:		
Hospital Revenue Bonds, Series 1997A, Sisters of St. Francis Health Services, Inc. Project, dated November 1, 1997, with interest rates ranging from 5.0% to 5.75%, principal payable in increasing annual installments which increase to \$9,240,000, interest payable semiannually, with final maturity on November 1, 2027	\$ 163,440	\$ 166,525
Hospital Revenue Bonds, Series 1999A, Sisters of St. Francis Health Services, Inc. Project, dated February 15, 1999, with interest rates ranging from 4.0% to 5.25%, principal payable in increasing annual installments commencing on November 1, 2001, which increase to \$9,440,000, interest payable semiannually, with final maturity on November 1, 2029.	150,000	-
Illinois Development Finance Authority:		
Hospital Revenue Bonds, Series 1997B, Sisters of St. Francis Health Services, Inc. Project, dated November 1, 1997, with interest rates ranging from 4.35% to 5.75%, principal payable in increasing annual installments which increase to \$1,710,000, interest payable semiannually, with final maturity on November 1, 2027	29,460	30,010
Other	15,463	9,890
Less bond discount on Hospital Revenue Bonds	(3,435)	(3,252)
Total	354,928	203,173
Less current portion of long-term debt	12,150	8,051
Long-term debt	<u>\$ 342,778</u>	<u>\$ 195,122</u>

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **6. Debt, continued**

#### **Series 1997A and 1997B Hospital Revenue Bonds**

In November 1997, the Corporation, in connection with the Indiana Health Facility Financing Authority and the Illinois Development Finance Authority, issued \$200,000,000 of Series 1997A and 1997B Hospital Revenue Bonds. The Corporation used the bond proceeds to refund existing debt, to pay for prior capital expenditures, and to finance future capital projects. The refunding of existing debt by the Corporation resulted in an early extinguishment of debt through a legal defeasance. The Corporation purchased U.S. Government obligations and deposited those securities into an irrevocable trust which serves the sole purpose of funding payments of principal and interest through the defeased debt's stated maturity. The defeased debt may not be redeemed prior to maturity.

#### **Series 1999A Hospital Revenue Bonds**

In February 1999, the Corporation, in connection with the Indiana Health Facility Financing Authority, issued \$150,000,000 of Series 1999A Hospital Revenue Bonds. The Corporation used the bond proceeds to acquire St. Anthony Medical Center and finance future capital projects (see Note 11).

Principal payments on long-term debt for each of the next five years are as follows: 2000 - \$12,150,000; 2001 - \$9,932,000; and 2002 - \$9,906,000; 2003 - \$6,655,000; and 2004 - \$6,941,000.

Total interest cost incurred amounted to \$17,980,000 and \$12,194,000 in 1999 and 1998, respectively. Interest expense capitalized was \$836,000 and \$79,000 in 1999 and 1998, respectively, net of capitalized interest income of \$275,000 in 1999.

The fair value of the Corporation's long-term debt at December 31, 1999 approximates \$322,000,000. The fair values of the Corporation's underlying revenue bonds are based on current traded value. At December 31, 1998, the fair value of the Corporation's long-term debt approximated its carrying value.

The Corporation's master trust indenture and loan agreement include covenants which require the Corporation to maintain a minimum debt service coverage ratio and limit the Corporation's ability to encumber certain of its assets.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 7. Pension Plan Benefits

The Corporation has noncontributory defined benefit pension plans covering substantially all of its employees. The benefits are based on years of service and participant compensation, as defined.

Changes in benefit obligations, changes in plan assets, components of net periodic pension cost and weighted average assumptions are as follows:

	1999	1998
	(in thousands)	
<b>Change in benefit obligation:</b>		
Benefit obligation, beginning of year	\$ 264,223	\$ 242,618
Service cost	11,555	10,903
Interest cost	17,692	16,781
Plan amendments	1,158	7,912
Actuarial (gains)	(35,928)	(3,273)
Benefits paid	(9,674)	(10,718)
Benefit obligation, end of year	<u>249,026</u>	<u>264,223</u>
<b>Change in plan assets:</b>		
Fair value of plan assets, beginning of year	279,077	260,178
Actual return on plan assets	29,501	27,791
Employer contributions	-	1,826
Benefits paid	(9,674)	(10,718)
Fair value of plan assets, end of year	<u>298,904</u>	<u>279,077</u>
Funded status	49,878	14,854
Unrecognized net actuarial gain	(65,399)	(25,411)
Unrecognized prior service cost	9,829	9,585
Unrecognized transition asset	(2,898)	(3,786)
Accrued pension cost, net	<u>\$ (8,590)</u>	<u>\$ (4,758)</u>
<b>Components of net periodic pension cost:</b>		
Service cost	\$ 11,555	\$ 10,903
Interest cost	17,692	16,781
Expected return on plan assets	(24,700)	(21,787)
Net amortization and deferrals	18	(75)
Recognized actuarial gain	(1,010)	(637)
Net periodic pension cost	<u>\$ 3,555</u>	<u>\$ 5,185</u>
<b>Weighted-average assumptions as of December 31:</b>		
Discount rate	7.75%	7.00%
Expected return on plan assets	9.0%	8.5%
Rate of compensation increase	4.5%	4.5%

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 7. Pension Plan Benefits, continued

The net prepaid (accrued) pension cost is classified in the consolidated balance sheets as follows:

	1999 (in thousands)	1998
Other assets	\$ 20,794	\$ 16,900
Accounts payable and accrued expenses	(580)	-
Accrued payroll and related expenses	(470)	-
Other liabilities	(28,334)	(21,658)
	<u>(28,334)</u>	<u>(21,658)</u>
Accrued pension cost, net	<u>\$ (8,590)</u>	<u>\$ (4,758)</u>

Certain of the Corporation's affiliates have various 401(k) profit sharing plans covering eligible employees. These employees may contribute a portion of their pre-tax and/or after-tax compensation to the plan, in accordance with specified guidelines. In addition to any discretionary contributions, these affiliates match a percentage of the employee contributions up to certain limits. Matching and discretionary contributions for the years ended December 31, 1999 and December 31, 1998 aggregated \$654,000 and \$207,000, respectively.

### 8. Estimated Insurance Liabilities

The Corporation's wholly owned captive insurance subsidiary provides certain professional and general liability coverage for its member health centers and other entities. In addition, the Corporation has established a self-insured trust to provide long-term disability and workers' compensation coverage for its employees.

The captive insurance subsidiary and the self-insured trust have provided for reported losses and for losses incurred but not reported, based on projections by independent actuaries from information provided by the Corporation's management and insurance consultants. The estimated insurance liabilities, which consist of professional, general liability, long-term disability insurance, workers' compensation, and amounts self-insured for allocated loss adjustment expenses, approximated \$41.2 million and \$49.5 million at December 31, 1999 and 1998, respectively.

The captive insurance subsidiary purchases reinsurance coverage which limits the Corporation's exposure on individual claims. In addition, the Corporation has obtained excess insurance coverage from several commercial insurance companies. In the unlikely event that any or all of the insurance or reinsurance companies might be unable to meet their obligations under the existing agreements, the Corporation would be liable for such defaulted amounts.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **8. Estimated Insurance Liabilities, continued**

Claims have been asserted against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. Counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents occurring through December 31, 1999 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts provided by the Corporation, management believes that the excess liability, if any, will not materially affect the consolidated financial position of the Corporation at December 31, 1999.

### **9. Hospital Affiliation**

#### **St. Margaret Mercy Healthcare Centers, Inc.**

Effective at the close of business on December 31, 1991, and pursuant to the Agreement to Transfer Hospitals (the "Transfer Agreement"), Saint Margaret Hospital and Health Centers ("St. Margaret"), Hammond, Indiana, an operating division of the Corporation, and Our Lady of Mercy Hospital, Dyer, Indiana, an operating division of Mercy Health Services ("MHS") of Farmington Hills, Michigan, transferred their assets and liabilities to St. Margaret Mercy Healthcare Centers, Inc. ("SMMHC"), a newly formed corporation under the control of the Corporation. The Corporation and MHS are the sole members of SMMHC.

In connection with the Transfer Agreement, SMMHC is obligated under the terms of a Contribution and Funding Agreement, dated December 31, 1991, to (i) make an annual cash distribution ("annual grant") to MHS and (ii) offer to make an annual grant to the Corporation. The annual grants are based on the SMMHC's cash flows, as defined, and cannot exceed a defined "base grant amount."

In addition, in the event the SMMHC does not achieve certain financial ratios, as defined in the Contribution and Funding Agreement, MHS would be required to make certain contributions to SMMHC. At December 31, 1999 and 1998, MHC's interest in SMMHC's net assets, payable only in the event of a liquidation of SMMHC, approximated \$75.5 million and \$71.9 million, respectively.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 10. Investment in and Advances to Greater Lafayette Health Services, Inc.

Effective January 1, 1999, the Corporation contributed the net assets, as defined, and operations of St. Elizabeth Medical Center, an operating division of the Corporation, to Greater Lafayette Health Services, Inc. ("GLHS"), a newly formed Indiana not-for-profit corporation which is equally owned and jointly governed by the Corporation and North Central Health Services, Inc. ("NCHS"). Also effective January 1, 1999, NCHS contributed the net assets, as defined, and operations of its affiliate, Lafayette Home Hospital, Inc. ("Home") to GLHS. The definitive agreement between the parties required the two members of GLHS (the Corporation and NCHS) to each contribute net assets as of a measurement date (June 30, 1998) to GLHS such that the contributed net assets equaled \$90 million each. The Corporation accounts for its investment in GLHS using the equity method of accounting.

At December 31, 1999, the Corporation's investment in and advances to GLHS aggregated \$122,945,000. The Corporation recognized equity income from GLHS of approximately \$10,693,000 for the year ended December 31, 1999.

The summarized financial position and results of operations of GLHS for the period ended December 31, 1999 are as follows (in thousands):

Total assets	<u>\$ 294,163</u>
Total liabilities, including \$15,933 due to the Corporation	<u>\$ 80,138</u>
Net assets	<u>\$ 214,025</u>
Total revenues, gains and other support	<u>\$ 206,440</u>
Excess of revenues over expenses	<u>\$ 21,385</u>

### 11. Acquisitions, Transfers and Dispositions

#### Purchase of St. Anthony Medical Center, Crown Point, Indiana and Sale of the Nursing Homes

On March 1, 1999, the Corporation entered into a Master Agreement and various Purchase Agreements (the "Agreement") with the Franciscan Sisters of Chicago Service Corporation ("FSCSC"), Franciscan ElderCare Services/Illinois, Inc. ("FES"), St. Anthony Medical Center, Inc. ("SAMC") and Franciscan Holding Corporation ("FHC"). Under the Agreement, substantially all of the assets, certain liabilities, and long-term debt of SAMC and all the issued and outstanding capital stock of FHC was acquired by and transferred to the Corporation. In addition, the Corporation sold and transferred substantially all of the assets and certain liabilities of St. Elizabeth Health Care Center, Delphi, Indiana and Franciscan Health Care Center, Louisville, Kentucky ("Nursing Homes") to FSCSC. The net purchase price, including the assumption of long-term debt, related to these transactions amounted to approximately \$130.9 million. The acquisition of SAMC and FHC was accounted for as a purchase with the purchase price allocated to the fair value of the assets acquired and the liabilities assumed.



# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **11. Acquisitions, Transfers and Dispositions, continued**

#### **Purchase of St. Anthony Medical Center, Crown Point, Indiana and Sale of the Nursing Homes, continued**

The consolidated financial statements include the results of operations of SAMC and FHC from the date of acquisition and exclude the results of operations of the Nursing Homes after the date of sale. In addition, the consolidated statement of operations includes a gain of \$4.1 million related to the sale of the Nursing Homes.

In addition, the Agreement requires for the Corporation to sell and transfer substantially all the assets and certain liabilities of St. James Manor and St. James Villas, Crete, Illinois and to enter into a home health and related services agreement with FSCSC. These transactions are anticipated to be completed on April 15, 2000.

#### **Purchase of St. Clare Medical Center, Crawfordsville, Indiana**

Effective October 1, 1999, the Corporation (through its newly formed operating division, St. Clare Medical Center) acquired the net assets and operations of Culver Union Hospital (the "Hospital"), under an Asset Sale Agreement between the Corporation and Tenet Health Corporation. The purchase price consisted of \$66.6 million of cash and \$367,854 of assumed liabilities and was financed by the issuance of the 1999 Hospital Revenue Notes (see Note 6). The \$44.3 million excess of purchase price over fair value of acquired tangible assets was allocated to goodwill, and is being amortized by the straight-line method over 20 years. The acquisition has been accounted for as a purchase and accordingly, the results of operations of the Hospital are included in the Corporation's consolidated financial statements from October 1, 1999.

#### **Midwest Health Ventures, Inc. and Purchase of Physician Management Company and Various Clinic Services Agreements**

Midwest Health Ventures, Inc. ("MHV") (formerly known as Chicago Heights Health Ventures, Inc.), a wholly owned subsidiary of Alverno Health Corporation, was established for the purpose of providing comprehensive management and support services to medical practices. During the year MHV acquired the rights, title and interest in certain assets, including clinic service agreements, and assumed certain liabilities of another physician management company in exchange for cash consideration approximating \$21 million. The acquisition was accounted for as a purchase and the accompanying consolidated financial statements include the results of operations from June 22, 1999, the date of acquisition. Simultaneous with the acquisition, MHV entered into long-term clinic services agreements (the "Agreements") with the related physician groups. The Agreements represent the exclusive right to operate MHV's clinics in affiliation with the related physician groups during the terms of the Agreements.

MHV does not consolidate the physician practices it manages as it does not have a controlling financial interest as defined in EITF 97-2 *Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements*.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 11. Acquisitions, Transfers and Dispositions, continued

#### Midwest Health Ventures, Inc. and Purchase of Physician Management Company and Various Clinic Services Agreement, continued

In accordance with the terms of the Agreements, MHV earns a management fee comprised of i) a base fee equivalent to the expenses of MHV incurred in performing its obligations under the Agreements less certain excluded expenses as defined in the Agreements, and ii) the base fee for the period multiplied by a specified rate.

#### Disposition of Alverno Receivable Services

On October 1, 1999, the Corporation transferred the collection activity of Catholic Health Midwest, Inc., a subsidiary of the Corporation, to Mutual Hospital Services, Inc. ("MHS"). The Corporation transferred the furniture, fixtures and equipment of the collection agency to MHS in exchange for a \$390,000 note receivable which is due in varying amounts through 2004. No gain or loss resulted from this transaction. In connection with the transfer, MHS is expected to provide the Corporation with collection services for a minimum of 63 months.

### 12. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related in providing these services are as follows:

	At December 31,	
	1999	1998
	(in thousands)	
Health care services	\$ 702,903	\$ 639,856
General and administrative	123,417	114,735
	<u>\$ 826,320</u>	<u>\$ 754,591</u>

### 13. Subsequent Events

#### Purchase of Olympia Fields Regional Osteopathic Medical Center, Olympia Fields, Illinois

On November 12, 1999, the Corporation entered into an Asset Purchase Agreement (the "Columbia Agreement") with Columbia/HCA Healthcare Corporation which was completed on January 7, 2000. Under the Columbia Agreement, the Corporation purchased the business operations and substantially all the assets of Olympia Fields Regional Osteopathic Medical Center. The purchase price consisted of approximately \$40 million of cash and assumed liabilities of \$4.7 million.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **13. Subsequent Events, continued**

#### **Purchase of Kendrick Memorial Hospital, Mooresville, Indiana**

On January 14, 2000, the Corporation entered into an Asset Purchase Agreement (the "Kendrick Agreement") with Kendrick Memorial Hospital, Inc. ("Kendrick"). Under the Kendrick Agreement, the Corporation purchased the business operations and substantially all assets of Kendrick. The purchase price consisted of approximately \$32 million of cash and assumed liabilities of \$1.9 million.

The purchase price of the above noted transactions approximated the fair value of the tangible assets acquired.

#### **Civil Investigative Demand**

St. Francis Hospital and Health Centers, an operating division of the Corporation, along with three other Indianapolis healthcare organizations, received a Civil Investigative Demand on January 21, 2000 ("CID") from the Antitrust Division of the United States Department of Justice to determine whether there is, has been, or may be a violation of Section 1 of the Sherman Act, 15 U.S.C. §1, by conduct, activities or proposed action resulting in agreements among hospitals having the purpose or effect of unreasonably restricting competition in the sale of health care services to managed care plans in and around Indianapolis. The Corporation is cooperating with the investigation and is in the process of responding to the CID. The Corporation believes that this action is without merit and should not have a material adverse effect of the financial position or results of operation of the Corporation.

## **Report of Independent Accountants on Supplemental Financial Information**

Board of Directors  
Sisters of St. Francis Health Services, Inc.  
Mishawaka, Indiana

Our report on the audits of the consolidated financial statements of Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation") at December 31, 1999 and 1998 and for the years then ended appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating balance sheet schedules at December 31, 1999 (pages 26 through 31) and the supplemental consolidating schedules of operations for the year ended December 31, 1999 (pages 32 through 34) are not necessary for fair presentation of the consolidated financial position and results of operations of the Corporation in conformity with accounting principles generally accepted in the United States. The supplemental consolidating financial statement schedules and the supplemental schedules contained on pages 35 through 38 are presented for the purpose of additional analysis and are not a required part of the basic consolidating financial statements. This supplemental financial information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

April 4, 2000

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet

December 31, 1999

(in thousands)

ASSETS	Health Centers	Catholic Health Midwest, Inc.	Alverno Health Corporation and Affiliates	Hills Insurance Company, Ltd.	Other	Eliminations	Consolidated Total
Current assets:							
Cash and cash equivalents	\$ 15,456	\$ 2,704	\$ 10,241	\$ 5,221	\$ 7,216	\$	\$ 58,750
Short-term investments			915		1,221		53,236
Patient accounts receivable, net of allowance for doubtful accounts	132,689				2,180		134,869
Inventories of supplies	10,639		424		800		11,863
Other current assets	15,428	4,397	9,679	1,847	16,019	(84,801)	39,332
Total current assets	174,212	7,101	21,259	7,068	27,436	(84,801)	298,050
Investments, including assets limited as to use	369,087	1,054	6,603	82,719	2,768		800,111
Property, plant and equipment, net	497,435	26,810	3,443		14,179		547,281
Investment in and advances to Greater Lafayette Health Services, Inc.							122,945
Intangible assets, net of accumulated amortization	61,379		24,257		634		86,270
Other assets	16,027	1,207	9,615		1,029	(347,782)	46,319
Total assets	\$ 1,118,140	\$ 36,172	\$ 65,177	\$ 89,787	\$ 46,046	\$ (432,583)	\$ 1,900,976

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet, Continued

December 31, 1999

(In thousands)

### LIABILITIES AND NET ASSETS

	Health Centers	Catholic Health Midwest, Inc.	Alverno Health Corporation and Affiliates	Hills Insurance Company, Ltd.	Other	Eliminations	Consolidated Total
Current liabilities:							
Short-term borrowings	\$ 66,900						
Current portion of long-term debt	6,818	\$ 605	\$ 4,675		\$ 1,290	\$ (66,900)	\$ 125,800
Accounts payable and accrued expenses	52,396	8,149	10,719		15,484	(15,110)	77,423
Accrued payroll and related expenses	27,949	2,188	1,048	\$ 1,316	2,512		34,990
Estimated third-party payor settlements	18,216				323		18,551
Total current liabilities	172,279	10,942	16,442	1,316	19,609	(87,471)	268,914
Long-term debt, net of current portion	234,916	5,907	23,772		9,581	(268,500)	342,778
Other liabilities	24,973	1,992	483		286		33,246
Estimated insurance liabilities	1,729			31,818			41,221
Total liabilities	433,897	18,841	40,697	33,134	29,476	(355,971)	686,159
Common stock				120	4,575	(4,695)	-
Additional paid-in capital			7,800	26	20,480	(28,306)	-
Retained earnings (deficit)			(497)	56,507	(12,399)	(43,611)	-
Net assets:							
Unrestricted	678,073	17,331	17,177		1,600		1,196,872
Temporarily restricted	3,975				1,643		9,911
Permanently restricted	2,195				671		8,034
Total net assets	684,243	17,331	24,480	56,653	16,570	(76,612)	1,214,817
Total liabilities and net assets	\$ 1,118,140	\$ 36,172	\$ 65,177	\$ 89,787	\$ 46,046	\$ (432,583)	\$ 1,900,976

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet - Health Centers

December 31, 1999

(In thousands)

ASSETS	St. Anthony Memorial Michigan City		St. Anthony Crown Point		St. Clare Crawfordsville		St. Francis Beech Grove/ Indianapolis		St. James Chicago Heights		St. Margaret Mercy Hammond/ Dyer		Health Centers Total	
	\$	2,782	\$	2,229	\$	882	\$	3,377	\$	2,179	\$	4,007	\$	15,456
Cash and cash equivalents														
Patient accounts receivable, net of allowance for doubtful accounts		11,964		18,799		5,392		38,133		18,375		40,026		132,689
Inventories of supplies		1,220		1,584		794		2,554		647		3,840		10,639
Other current assets		2,965		3,976		725		3,936		1,762		2,064		15,428
Total current assets		18,931		26,588		7,793		48,000		22,963		49,937		174,212
Investments, including assets limited as to use		53,745		49,752		1,668		108,768		13,586		141,568		369,087
Property, plant and equipment, net		35,960		118,628		22,222		134,460		56,813		129,352		497,435
Intangible assets, net of accumulated amortization		721		4,447		43,759						12,452		61,379
Other assets		579		4,077		-		1,861		1,598		7,912		16,027
Total assets	\$	109,936	\$	203,492	\$	75,442	\$	293,089	\$	94,960	\$	341,221	\$	1,118,140

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet - Health Centers, Continued

December 31, 1999

(In thousands)

	St. Anthony Memorial Michigan City	St. Anthony Crown Point	St. Clare Crawfordsville	St. Francis Beech Grove/ Indianapolis	St. James Chicago Heights	St. Margaret Mercy Hammond/ Dyer	Health Centers Total
<b>LIABILITIES AND NET ASSETS</b>							
Current liabilities:							
Short-term borrowings	\$ 147	\$ 112	\$ 66,900	\$ 1,448	\$ 572	\$ 4,539	\$ 66,900
Current portion of long-term debt							6,818
Accounts payable and accrued expenses	6,286	5,283	2,044	7,962	11,451	19,370	52,396
Accrued payroll and related expenses	2,763	4,591	767	8,953	2,718	8,157	27,949
Estimated third-party payor settlements	1,851	600	405	7,057	3,464	4,839	18,216
Total current liabilities	11,047	10,586	70,116	25,420	18,205	36,905	172,279
Long-term debt, net of current portion	4,929	149,086		44,128	10,827	25,946	234,916
Other liabilities	3,700	1,228		2,751	3,084	14,210	24,973
Estimated insurance liabilities	345			704		680	1,729
Total liabilities	20,021	160,900	70,116	73,003	32,116	77,741	433,897
Net assets:							
Unrestricted	89,400	39,496					678,073
Temporarily restricted	403	1,013	5,326	220,086	61,749	262,016	3,975
Permanently restricted	112	2,083			1,095	1,464	2,195
Total net assets	89,915	42,592	5,326	220,086	62,844	263,480	684,243
Total liabilities and net assets	\$ 109,936	\$ 203,492	\$ 75,442	\$ 293,089	\$ 94,960	\$ 341,221	\$ 1,118,140



# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet - Alverno Health Corporation and Affiliates

December 31, 1999

(In thousands)

ASSETS	Midwest Health Ventures	St. Francis Health Network	Alverno Lakeside	Alverno Beech Grove	Alverno Hammond	Alverno Health Corporation	Alverno Health Corporation and Affiliates Total
Current assets:							
Cash and cash equivalents	\$ 3,331	\$ 4,648	\$ 1,213	\$ 653	\$ 3	\$ 393	\$ 10,241
Short-term investments			915				915
Inventories of supplies	424						424
Other current assets	8,132	187	1,035	325			9,679
Total current assets	11,887	4,835	3,163	978	3	393	21,259
Investments, including assets limited as to use				3,012		3,591	6,603
Property, plant and equipment, net	2,584	1	858				3,443
Intangible assets, net of accumulated amortization	24,257						24,257
Other assets	2,100		12			7,503	9,615
Total assets	\$ 40,828	\$ 4,836	\$ 4,033	\$ 3,990	\$ 3	\$ 11,487	\$ 65,177

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet - Alverno Health Corporation and Affiliates, Continued

December 31, 1999

(In thousands)

		Midwest Health Ventures	St. Francis Health Network	Alverno Lakeside	Alverno Beech Grove	Alverno Hammond	Alverno Health Corporation	Alverno Health Corporation and Affiliates Total
<b>LIABILITIES AND NET ASSETS</b>								
Current liabilities:								
Current portion of long-term debt	\$	4,675					\$	4,675
Accounts payable and accrued expenses		4,149	\$ 4,856	\$ 299	\$ 409		\$ 1,006	10,719
Accrued payroll and related expenses		1,048						1,048
Total current liabilities		9,872	4,856	299	409		1,006	16,442
Long-term debt, net of current portion		23,573					199	23,772
Other liabilities		80		403				483
Total liabilities		33,525	4,856	702	409		1,205	40,697
Additional paid-in capital		7,800						7,800
Accumulated deficit		(497)						(497)
Unrestricted net assets			(20)	3,331	3,581	\$ 3	10,282	17,177
Total net assets		7,303	(20)	3,331	3,581	3	10,282	24,480
Total liabilities and net assets	\$	40,828	\$ 4,836	\$ 4,033	\$ 3,990	\$ 3	\$ 11,487	\$ 65,177

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Statement of Operations

for the year ended December 31, 1999  
(In thousands)

	Health Centers	Catholic Health Midwest, Inc.	Alverno Health Corporation and Affiliates	Hills Insurance Company Ltd.	Other	Eliminations	Consolidated Total
Unrestricted revenues, gains and other support:							
Net patient service revenue	\$ 667,599		\$ 39,155		\$ 10,515	\$ (4,482)	\$ 673,632
Premium revenue	20,846		26,039			(18,398)	41,403
Other operating revenue	39,284	\$ 24,485		1,434	85,003	(75,774)	120,714
Net assets released from restrictions used for operations	655						1,085
Total revenues, gains and other support	728,184	24,485	65,194	1,434	95,518	(98,654)	836,834
Operating expenses:							
Salaries	299,977	12,898	9,101		25,994	(11,360)	344,255
Employee benefits	68,026	2,116	198		5,251		70,372
Physicians' compensation	8,857				3,731		12,588
Utilities	12,593		1,755		1,663		16,110
Repairs and maintenance	10,780		657		471		11,900
Drugs and pharmaceuticals	45,216		41		66		45,323
Insurance	4,578		12		1,319	(1,434)	4,343
Other supplies and expenses	175,133	7,826	51,358		59,846	(86,132)	210,749
Provision for doubtful accounts	30,882	179	108	(642)	1,291		32,460
Interest	10,398	49	1,098		459		17,144
Depreciation and amortization	52,621	5,174	1,299		1,521		60,986
Total expenses	717,061	28,242	65,627	(642)	101,612	(98,926)	826,320
Operating income (loss)	11,123	(3,757)	(433)	2,076	(6,094)	272	10,514
Other income (expense):							
Investment income	32,144	806	304	4,113	440	(5,950)	63,380
Equity in earnings of Greater Lafayette Health Services, Inc.							10,693
Contributions	172				(761)	84	(505)
Gain (loss) on sale of assets	(595)	(28)	(13)		3		3,439
Other, net	247		(235)	(100)	(88)		(6,038)
Net assets released from restrictions					632		632
Total other income, net	31,968	778	56	4,013	226	(5,866)	71,601
Excess (deficiency) of revenues over (under) expenses	43,091	(2,979)	(377)	6,089	(5,868)	(5,594)	82,115
Change in net unrealized investment gains and losses	(4,239)	(63)	(30)		(28)		(6,540)
Equity transfers (to) from affiliates, net						(356)	(745)
Equity distribution to Mercy Health Services	36,653	1,142	(1,987)		3,716		(1,755)
Net assets released from restrictions used for purchase of property, plant and equipment	(1,755)						
Increase (decrease) in unrestricted net assets	200						200
	\$ 73,950	\$ (1,900)	\$ (2,394)	\$ 6,089	\$ (2,180)	\$ (5,950)	\$ 73,275

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Statement of Operations - Health Centers

for the year ended December 31, 1999

(In thousands)

	St. Anthony Memorial Michigan City	St. Anthony Crown Point (a)	St. Clare Crawfordsville (b)	St. Francis Beech Grove/ Indianapolis	St. James Chicago Heights	St. Margaret Mercy Hammond/ Dyer	Health Centers Total
Unrestricted revenues, gains, and other support:							
Net patient service revenue	\$ 76,910	\$ 69,912	\$ 7,789	\$ 208,557	\$ 95,584	\$ 210,847	\$ 667,599
Premium revenue				17,765	2,881		20,646
Other operating revenue	2,274	10,799	7	9,075	5,550	11,579	39,284
Net assets released from restrictions used for operations	93				276	286	655
Total revenues, gains and other support	79,277	80,711	7,796	233,397	104,291	222,712	728,184
Operating expenses:							
Salaries	25,507	34,135	2,893	101,405	49,859	86,578	299,977
Employee benefits	6,678	8,243	545	20,356	9,475	20,729	66,026
Physicians' compensation	1,205	998	221	3,032	1,778	1,623	8,857
Utilities	1,017	1,891	121	3,214	1,769	4,581	12,593
Repairs and maintenance	1,805	441	116	3,102	2,053	3,263	10,780
Drugs and pharmaceuticals	2,830	2,575		8,736	5,030	28,045	45,216
Insurance	431	461	82	1,059	1,744	801	4,578
Other supplies and expenses	24,150	19,884	1,717	58,194	30,487	40,701	175,133
Provision for doubtful accounts	3,759	2,072	348	5,387	7,753	11,563	30,882
Interest	16	5,523	719	2,249	235	1,656	10,398
Depreciation and amortization	8,283	5,163	1,050	15,837	5,697	18,591	52,621
Total expenses	75,681	81,386	7,612	222,571	115,680	214,131	717,061
Operating income (loss)	3,596	(675)	184	10,826	(11,389)	8,581	11,123
Other income (expense):							
Investment income	5,712	1,536	82	10,938	1,323	12,553	32,144
Contributions	122	4			46		172
Gain (loss) on sale of assets		(602)		(32)		39	(595)
Other, net	(54)			(6)	19	288	247
Total other income, net	5,780	938	82	10,900	1,388	12,880	31,968
Excess (deficiency) of revenues over (under) expenses	9,376	263	266	21,726	(10,001)	21,461	43,091
Change in net unrealized investment gains and losses	(570)	55	60	(1,335)	(147)	(2,302)	(4,239)
Equity transfers (to) from affiliates, net	(504)	39,178	5,000	(781)	(589)	(5,651)	36,653
Equity distribution to Mercy Health Services						(1,755)	(1,755)
Net assets released from restrictions used for purchase of property, plant and equipment					200		200
Increase (decrease) in unrestricted net assets	\$ 8,302	\$ 39,496	\$ 5,326	\$ 19,610	\$ (10,537)	\$ 11,753	\$ 73,950

(a) 10 months of operations

(b) 3 months of operations

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Statement of Operations – Alverno Health Corporation and Affiliates

for the year ended December 31, 1999

(In thousands)

	Midwest Health Ventures	St. Francis Health Network	Alverno Lakeside	Alverno Beech Grove	Alverno Health Corporation	Alverno Health Corporation and Affiliates Total
Unrestricted revenues, gains, and other support:						
Premium revenue		\$ 38,212		\$ 943		\$ 39,155
Other operating revenue	\$ 19,502	2,266	\$ 3,255	1,016		26,039
Total revenues, gains and other support	19,502	40,478	3,255	1,959		65,194
Operating expenses:						
Salaries	7,149	736	1,154	62		9,101
Employee benefits			198			198
Utilities	1,497	63	195			1,755
Repairs and maintenance	453		204			657
Drugs and pharmaceuticals			41			41
Insurance			6	6		12
Other supplies and expenses	8,749	39,856	844	1,909		51,358
Provision for doubtful accounts			43	65		108
Interest	1,098					1,098
Depreciation and amortization	1,070	3	226			1,299
Total expenses	20,016	40,658	2,911	2,042		65,627
Operating income (loss)	(514)	(180)	344	(83)		(433)
Other income (expense):						
Investment income		180	96	159	\$ (131)	304
Loss on sale of assets	(13)					(13)
Other, net	30		(71)		(194)	(235)
Total other income, net	17	180	25	159	(325)	56
Excess (deficiency) of revenues over (under) expenses	(497)		369	76	(325)	(377)
Change in net unrealized investment gains and losses				9	(39)	(30)
Equity transfers to affiliates, net			(300)		(1,687)	(1,987)
Increase (decrease) in unrestricted net assets	\$ (497)	\$ -	\$ 69	\$ 85	\$ (2,051)	\$ (2,394)

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Patient Accounts Receivable and Related Data - Health Centers December 31, 1999 and 1998

(In thousands except percentages and average days)

	1999		Allowance for Doubtful Accounts	Patient Accounts Receivable, Net		Increase (Decrease)		Average Day's Charges in Patient Accounts Receivable, Net	
	Patient Accounts Receivable, Net of Contractual Allowances	Allowance for Doubtful Accounts		1999	1998	Amount	Percentage	1999	1998
St. Anthony Memorial, Michigan City	\$ 16,323	\$ 4,359	\$ 11,964	\$ 10,680	\$ 1,284	12.0 %	56.8	51.3	
St. Anthony, Crown Point	23,673	4,874	18,799	N/A	N/A	N/A	N/A	82.3	N/A
St. Clare, Crawfordsville	5,915	523	5,392	N/A	N/A	N/A	N/A	63.7	N/A
St. Elizabeth, Lafayette	N/A	N/A	N/A	17,588	N/A	N/A	N/A	N/A	73.4
St. Francis, Beech Grove/Indianapolis	48,119	9,986	38,133	32,833	5,300	16.1 %	67.4	58.2	
St. James, Chicago Heights	24,832	6,457	18,375	20,371	(1,996)	(9.8) %	70.2	73.4	
St. Margaret Mercy, Hammond/Dyer	54,107	14,081	40,026	39,434	592	1.5 %	69.3	71.5	
	<u>\$ 172,969</u>	<u>\$ 40,280</u>	<u>\$ 132,689</u>	<u>\$ 120,906</u>	<u>\$ 11,783</u>	<u>9.7 %</u>	<u>69.1</u>	<u>65.6</u>	

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Service Statistics - Health Centers

for the year ended December 31, 1999

(Unaudited)

	St. Anthony Memorial Michigan City	St. Anthony Crown Point (a)	St. Clare Crawfordsville (b)	St. Francis Beech Grove/ Indianapolis	St. James Chicago Heights	St. Margaret Mercy Hammond/ Dyer	Total
Patient days:							
Medical and surgical	23,736	19,945	2,153	65,433	36,328	75,451	223,046
Intensive care and coronary care	2,618	2,622	164	7,712	4,268	7,169	24,553
Obstetrical	2,014	1,450	115	6,365	3,326	5,311	18,581
Pediatrics	2,063	200	N/A	2,403	1,945	4,615	11,226
Psychiatric/rehabilitation	8,340	4,007	423	2,409	N/A	18,434	33,613
Skilled nursing unit	5,038	N/A	1,191	N/A	N/A	11,154	17,383
Other	N/A	N/A	N/A	N/A	4,746	10,605	15,351
	<u>43,809</u>	<u>28,224</u>	<u>4,046</u>	<u>84,322</u>	<u>50,613</u>	<u>132,739</u>	<u>343,753</u>
Adjusted patient days	69,521	50,714	7,985	173,780	86,332	199,109	587,441
Admissions	8,460	5,865	847	18,327	12,402	22,091	67,992
Discharges	8,417	5,792	833	18,327	12,372	21,828	67,569
Adjusted discharges	13,357	11,212	1,644	37,245	21,103	32,742	117,303
Average daily census	120	92	44	231	139	364	990
Average length of stay (days) - acute	4.2	4.2	3.4	4.6	4	4.9	4.2
Average length of stay (days) - SNF	12.7	N/A	15.1	N/A	N/A	11.8	13.2
Average length of stay (days) long-term	10.5	N/A	11.4	N/A	N/A	12.8	11.6
Percentage of occupancy	<u>57.98 %</u>	<u>40.28 %</u>	<u>36.65 %</u>	<u>57.47 %</u>	<u>60.00 %</u>	<u>45.40 %</u>	<u>58.56</u>
Case mix index	<u>1.06</u>	<u>1.43</u>	<u>1.17</u>	<u>1.50</u>	<u>1.03</u>	<u>1.16</u>	<u>1.23</u>
Nursery:							
Patient days	1,730	1,363	181	7,640	2,582	5,470	18,966
Admissions	723	681	86	2,721	1,168	1,858	7,237
Discharges	721	679	85	2,721	1,172	1,848	7,226
Actual average daily crib capacity	20	22	11	49	28	51	30
Average number in nursery	5	4	2	21	7	15	9
Average length of stay (days)	<u>2.4</u>	<u>2.0</u>	<u>2.1</u>	<u>2.8</u>	<u>2.2</u>	<u>3.0</u>	<u>2.4</u>
Percentage of occupancy	<u>23.70 %</u>	<u>20.24 %</u>	<u>17.89 %</u>	<u>42.72 %</u>	<u>25.26 %</u>	<u>29.38 %</u>	<u>N/A</u>
Emergency room visits	21,893	17,644	4,050	49,402	33,866	56,883	183,738
Operated beds	207	251	87	356	231	559	1,691
Adjusted occupied beds	190	166	87	476	235	546	1,700
Outpatient - visits	194,846	68,962	14,095	679,961	89,133	929,580	1,976,577

(a) 10 months of operations

(b) 3 months of operations

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Gross Revenue Composition by Payor - Health Centers for the year ended December 31, 1999

(Unaudited)  
(In thousands)

	St. Anthony Memorial Michigan City	St. Anthony (a) Crown Point	St. Clare (b) Crawfordsville	St. Francis Beech Grove/ Indianapolis	St. James Chicago Heights	St. Margaret Mercy Hammond/Dyer	Total
	\$	\$	\$	\$	\$	\$	\$
	%	%	%	%	%	%	%
Inpatient:							
Medicare	\$ 44,668	57.52 %	\$ 4,147	97.724	62.549	135,878	383,282
			66.38 %	49.86 %	45.49 %	52.11 %	
Medicaid	6,855	8.83	378	7,529	15,540	27,024	60,744
			6.05	3.84	11.30	10.36	
Blue Cross	6,979	8.99	223	12,261	7,078	18,523	50,014
			3.57	6.26	5.15	7.10	
Managed care contracts	9,866	12.70	927	58,983	38,737	53,180	173,587
			14.84	30.09	28.17	20.39	
Other commercial	4,161	5.36	N/A	10,790	3,887	6,750	31,666
			N/A	5.50	2.83	2.59	
Self-pay and other	5,128	6.60	572	8,730	9,703	19,428	45,410
			9.16	4.45	7.06	7.45	
	\$ 77,655	100.00 %	\$ 6,247	\$ 196,017	\$ 137,492	\$ 280,783	\$ 744,703
			100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Outpatient:							
Medicare	\$ 15,679	33.26 %	\$ 2,025	33,658	25,797	38,469	133,293
			33.30 %	24.24 %	27.61 %	34.14 %	
Medicaid	3,614	7.67	436	3,192	8,898	7,956	26,130
			7.17	2.30	9.53	7.06	
Blue Cross	6,847	14.53	530	12,498	7,483	11,391	44,537
			8.71	9.00	8.01	10.11	
Managed care contracts	11,347	24.08	1,567	65,248	30,403	33,414	156,857
			25.77	46.98	32.55	29.65	
Other commercial	4,300	9.12	N/A	12,325	7,897	7,775	40,239
			N/A	8.88	8.45	6.90	
Self-pay and other	5,344	11.34	1,523	11,940	12,943	13,678	48,227
			25.05	8.60	13.85	12.14	
	\$ 47,131	100.00 %	\$ 6,081	\$ 138,861	\$ 93,421	\$ 112,683	\$ 449,283
			100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

(a) 10 months of operations  
(b) 3 months of operations



# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule – Full-Time Equivalent Personnel

for the years ended December 31, 1999 and 1998

(Unaudited)

	Total FTE's		FTE's Per Adjusted Occupied Bed	
	1999	1998	1999	1998
Health Centers:				
St. Anthony Memorial - Michigan City	759	823	4.0	4.4
St. Anthony - Crown Point	889	N/A	5.7	N/A
St. Clare - Crawfordsville	312	N/A	3.6	N/A
St. Elizabeth, Lafayette	N/A	1,005	N/A	5.3
St. Francis - Beech Grove/Indianapolis	2,674	2,606	6.3	6.4
St. James - Chicago Heights	1,141	1,114	4.6	5.0
St. Margaret Mercy - Hammond/Dyer	2,223	2,353	4.6	4.8
	7,998	7,901	4.8	5.2
Catholic Health Midwest, Inc.	243	233		
Alverno Health Corporation and Affiliates:				
Midwest Health Ventures	376	N/A		
St. Francis Health Network	12	11		
Alverno Lakeside	21	20		
Alverno Beech Grove	2	2		
Corporate, includes the Corporation's CEOs, CFOs, COOs	41	44		
Other:				
Alverno Construction Corporation	228	182		
Alverno Clinical Laboratories, Inc.	414	140		
St. Francis Healthcare Foundation	4	4		
Franciscan Holding Corporation	22	N/A		
St. Elizabeth Healthcare Center	N/A	80		
Franciscan Healthcare Center	N/A	129		
St. James Manor	96	94		
Totals	9,457	8,840		

**SISTERS OF ST. FRANCIS HEALTH  
SERVICES, INC. AND AFFILIATES**

**REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL FINANCIAL INFORMATION**

**FOR THE YEARS ENDED DECEMBER 31, 1998 and 1997**

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# **Sisters of St. Francis Health Services, Inc. and Affiliates**

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## Report of Independent Accountants

Board of Directors  
Sisters of St. Francis Health Services, Inc.  
Mishawaka, Indiana

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets, and of cash flows present fairly, in all material respects, the financial position of Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation") at December 31, 1998 and 1997, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

See Note 13 for discussion of subsequent events.

*PricewaterhouseCoopers LLP*

March 26, 1999

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Consolidated Balance Sheets

December 31, 1998 and 1997

(In thousands)

ASSETS		1998	1997	LIABILITIES AND NET ASSETS		1998	1997
Current assets:				Current liabilities:			
Cash and cash equivalents	\$	108,990	\$ 48,786	Current portion of long-term debt	\$	8,051	\$ 4,583
Short-term investments		1,247	3,999	Accounts payable and accrued expenses		55,389	40,320
Patient accounts receivable, net of allowance for doubtful accounts of \$29,618 in 1998 and \$27,753 in 1997		123,869	123,258	Accrued payroll and related expenses		29,483	33,040
Inventories of supplies		10,463	10,861	Estimated third-party payor settlements		20,389	18,562
Estimated third-party payor settlements		3,896	-				
Other current assets		26,015	22,354	Total current liabilities		113,312	96,505
Total current assets		274,480	209,258	Long-term debt, net of current portion		195,122	192,918
Investments, including assets limited as to use		763,764	735,476	Other liabilities		22,279	15,359
Property, plant and equipment, net		423,677	396,846	Estimated insurance liabilities		49,515	54,299
Other assets		52,744	36,389	Total liabilities		380,228	359,081
				Net assets:			
				Unrestricted		1,123,597	1,010,665
				Temporarily restricted		4,994	3,487
				Permanently restricted		5,846	5,451
				Minimum pension liability adjustment		-	(715)
				Total net assets		1,134,437	1,018,888
Total assets	\$	<u>1,514,665</u>	<u>\$ 1,377,969</u>	Total liabilities and net assets	\$	<u>1,514,665</u>	<u>\$ 1,377,969</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Consolidated Statements of Operations

for the years ended December 31, 1998 and 1997

(In thousands)

	1998	1997
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 689,200	\$ 839,538
Other operating revenue	110,951	39,316
Net assets released from restrictions used for operations	270	4,552
Total revenues, gains and other support	<u>800,421</u>	<u>883,406</u>
Operating expenses:		
Salaries	306,297	369,662
Employee benefits	69,621	72,781
Physicians' compensation	7,640	15,124
Utilities	12,506	14,692
Repairs and maintenance	13,306	15,973
Drugs and pharmaceuticals	45,688	54,333
Insurance	2,804	6,255
Other supplies and expenses	202,392	187,267
Provision for doubtful accounts	38,429	43,694
Interest	12,115	5,809
Depreciation and amortization	52,346	59,122
Total expenses	<u>763,144</u>	<u>844,712</u>
Operating income	<u>37,277</u>	<u>38,694</u>
Other income (expense):		
Investment income	87,829	40,186
Contributions	798	2,418
Other, net	(3,604)	6,764
Net assets released from restrictions	576	-
Total other income, net	<u>85,599</u>	<u>49,368</u>
Excess of revenues over expenses	122,876	88,062
Change in net unrealized investment gains and losses	(21,894)	21,873
Extraordinary loss on early extinguishment of debt	-	(2,224)
Equity transfers to affiliates, net	(518)	(36,010)
Equity distribution to Mercy Health Services	(1,755)	(1,639)
Beginning net assets of Alverno and Foundation, previously not consolidated	13,791	-
Contributions of property, plant and equipment	3	335
Net assets released from restrictions used for purchase of property, plant and equipment	429	625
Restricted net assets received in Health Center dispositions	-	5,239
Increase in unrestricted net assets	<u>\$ 112,932</u>	<u>\$ 76,261</u>

*The accompanying notes are an integral part of the consolidated financial statements.*



# Statements of St. Francis Health Services, Inc. and Affiliates

## Consolidated Statements of Changes in Net Assets

for the years ended December 31, 1998 and 1997

(In thousands)

	1998	1997
Unrestricted net assets:		
Excess of revenues over expenses	\$ 122,876	\$ 88,062
Change in net unrealized investment gains and losses	(21,894)	21,873
Extraordinary loss on early extinguishment of debt	-	(2,224)
Equity transfers to affiliates, net	(518)	(36,010)
Equity distribution to Mercy Health Services	(1,755)	(1,639)
Beginning net assets of Alverno and Foundation, previously not consolidated	13,791	-
Contributions for property, plant and equipment	3	335
Net assets released from restrictions used for purchase of property, plant and equipment	429	625
Restricted net assets received in Health Center dispositions	-	5,239
	<u>112,932</u>	<u>76,261</u>
Increase in unrestricted net assets		
Temporarily restricted net assets:		
Contributions	1,138	1,424
Investment income	117	978
Net assets released from restrictions	(1,326)	(5,177)
Restricted net assets transferred in Health Center dispositions	-	(4,977)
Beginning net assets of Foundation, previously not consolidated	1,509	-
Change in net unrealized investment gains and losses	69	-
	<u>1,507</u>	<u>(7,752)</u>
Increase (decrease) in temporarily restricted net assets		
Permanently restricted net assets:		
Beginning net assets of Foundation, previously not consolidated	299	-
Contributions	45	5,000
Restricted net assets transferred in Health Center dispositions	-	(262)
Net assets released from restrictions	51	-
	<u>395</u>	<u>4,738</u>
Increase in permanently restricted net assets		
Minimum pension liability adjustment	<u>715</u>	<u>1,936</u>
Increase in net assets	115,549	75,183
Net assets, beginning of the year	<u>1,018,888</u>	<u>943,705</u>
Net assets, end of the year	<u>\$ 1,134,437</u>	<u>\$ 1,018,888</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Consolidated Statements of Cash Flows

for the years ended December 31, 1998 and 1997

(In thousands)

	1998	1997
Cash flows from operating activities:		
Increase in net assets	\$ 115,549	\$ 75,183
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	51,281	58,299
Amortization of deferred financing costs and other intangible assets	1,065	823
Provision for doubtful accounts	38,429	43,694
Extraordinary loss on early extinguishment of debt	-	2,224
Gain on disposition of Health Center	-	(4,915)
Loss (gain) on sale of property, plant and equipment	646	(328)
Net realized and unrealized gains on investments	(25,717)	(32,647)
Restricted net assets received in Health Center dispositions	-	(5,239)
Restricted and capital contributions	(1,186)	(6,759)
Equity distribution to Mercy Health Services	1,755	1,639
Equity transfers to affiliates, net	518	36,010
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Patient accounts receivable	(38,541)	(51,071)
Inventories of supplies	451	(469)
Accounts payable and accrued expenses	14,549	(7,748)
Accrued payroll and related expenses	(3,557)	6,149
Estimated third-party payor settlements, net	(2,069)	(4,728)
Estimated insurance liabilities	(4,784)	(3,702)
Other	1,037	4,159
Total adjustments	33,877	35,391
Net cash provided by operating activities	149,426	110,574
Cash flows from investing activities:		
Purchase of property, plant and equipment	(65,577)	(77,941)
Acquisitions of businesses, net of cash acquired	(18,393)	(10,045)
Proceeds from sale of health centers	-	149,458
Decrease (increase) in investments and assets whose use is limited	181	(256,389)
Proceeds from sale of property, plant and equipment	853	3,867
Transfers to affiliates, net	(518)	(50,000)
Investments in and loans to affiliate, net	(1,299)	(4,366)
Net cash used in investing activities	(84,753)	(245,416)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	197,501
Principal payments on long-term debt	(4,016)	(86,231)
Payment of equity distribution to Mercy Health Services	(1,639)	(1,639)
Restricted and capital contributions	1,186	6,759
Cash paid for financing fees	-	(3,597)
Net cash (used in) provided by financing activities	(4,469)	112,793
Net increase (decrease) in cash and cash equivalents	60,204	(22,049)
Cash and cash equivalents, beginning of year	48,786	70,835
Cash and cash equivalents, end of year	\$ 108,990	\$ 48,786

The accompanying notes are an integral part of the consolidated financial statements.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **1. Description of Organization and Summary of Significant Accounting Policies**

#### **Organization**

The Sisters of St. Francis Health Services, Inc. (the "Corporation") is a not-for-profit corporation which provides health care and related services to the communities in which it operates. At December 31, 1998, the Corporation was comprised of five health centers (the "Health Centers"), three nursing homes (the "Nursing Homes"), Catholic Health Midwest, Inc. (an information services division, a receivables services division and a group purchasing division), Hills Insurance Company, Ltd. (a captive insurance company) and other related administrative divisions. St. Francis Healthcare Foundation ("Foundation") and Alverno Health Corporation and its wholly-owned subsidiaries (collectively referred to as "Alverno") are also included in the Corporation's 1998 consolidated financial statements since the Corporation is deemed to have an economic interest and control of the Foundation and Alverno. Prior to January 1, 1998, the Corporation had elected not to consolidate the financial statements of the Foundation and Alverno, which was a variance from generally accepted accounting principles, because such financial statements were not material to the Corporation's consolidated financial statements. The Foundation raises funds on behalf of the Corporation and its affiliates. Alverno consists of various physician and laboratory service entities and a construction company. Prior to November 30, 1997, the Corporation's operations also included two health centers and one nursing home, which were divested effective November 30, 1997 (see Note 11). The sponsorship of the Corporation is under the governance of the Sisters of St. Francis of Perpetual Adoration. All significant transactions and accounts between the affiliates are eliminated in consolidation.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash, repurchase agreements, money market accounts, certificates of deposit and all highly liquid debt instruments having original maturities of three months or less. Funds whose use is limited by Board designation or other restrictions are excluded. The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments. A portion of the Corporation's cash and cash equivalents are held by various financial institution in denominations in excess of federally insured limits.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **1. Description of Organization and Summary of Significant Accounting Policies, continued**

#### **Inventories of Supplies**

Inventories of supplies are stated at the lower of cost or market. Cost is determined by the first-in, first-out method for approximately 73% and 77% of the inventories at December 31, 1998 and 1997, respectively. Cost for the remaining inventories is determined by either the last-in, first-out method or the average cost method.

#### **Investments and Assets Limited As to Use**

Investments, including investments which comprise assets limited as to use, are valued as follows: cash and cash equivalents at cost, which approximates market; marketable debt securities, guaranteed investment contracts, marketable equity securities, mutual funds and pooled funds at fair value. The fair values of investments are estimated based on quoted market prices for these investments or similar investments. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

Assets limited as to use include trustee-held assets under indenture agreements, designated assets set aside by the Board of Directors for future capital improvements and other projects over which the Board retains control and may at its discretion subsequently use for other purposes, assets held for estimated insurance liabilities, and assets designated for services for the poor.

#### **Unconsolidated Affiliates**

Investments in affiliates of less than 20% are accounted for by the cost method. Investments in affiliates of 20% to 50% are accounted for using the equity method.

#### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost or, if donated, at the fair value at the date of donation. Costs of maintenance and repairs are charged to expense when incurred; costs of renewals and betterments are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **1. Description of Organization and Summary of Significant Accounting Policies, continued**

#### **Consolidated Statements of Cash Flows**

Supplemental disclosure of cash flow information and noncash investing and financing activities are summarized as follows:

Cash paid during the year for interest, net of amounts capitalized, amounted to \$9,822,000 and \$4,942,000 for the years ended December 31, 1998 and 1997, respectively.

The Corporation accrued equity distributions of \$1,755,000 and \$1,639,000 in 1998 and 1997, respectively, to Mercy Health Services (see Note 9), which are recorded as liabilities at December 31, 1998 and 1997.

Included in accounts payable at December 31, 1998 and 1997 are \$1,547,000 and \$1,287,000, respectively, of costs related to construction in progress and the acquisition of property, plant and equipment.

Liabilities assumed in a business acquisition during the year ended December 31, 1998 and 1997 amounted to \$5,097,181 and \$5,857,487, respectively. A \$7,550,000 promissory note was issued in connection with a business acquisition in 1998.

During 1997, noncash net assets of \$13,990,000 was received by the Corporation from affiliated entities.

Cash paid for income taxes amounted to \$522,000 for the year ended December 31, 1998.

The Corporation's acquisitions and dispositions included certain noncash activities (see Note 11).

#### **Deferred Financing Costs**

Deferred financing costs incurred in connection with the issuance of debt are amortized using the straight-line method over the term of the debt, which is not materially different than the bonds outstanding method.

#### **Intangible Assets**

The excess of acquisition cost over fair value of acquired assets, covenants not to compete and other intangible assets are amortized on a straight-line basis over periods ranging from 5 to 30 years.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **1. Description of Organization and Summary of Significant Accounting Policies, continued**

#### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

During 1998 and 1997, net assets of \$1,326,000 and \$5,177,000, respectively, were released from donor restrictions by incurring expenses or capital expenditures satisfying the restricted purposes.

#### **Excess of Revenues Over Expenses**

The consolidated statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include distributions to the Corporation's sponsor, change in unrealized investment gains and losses on other than trading securities; permanent transfers of assets to and from affiliates for other than goods and services; contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets); and the extraordinary loss in 1997.

#### **Charity Care**

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **1. Description of Organization and Summary of Significant Accounting Policies, continued**

#### **Tax Status**

The Corporation and its affiliates, except for Alverno Construction Company and Chicago Heights Health Ventures which are corporations subject to federal and state income taxes, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"), and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

### **2. Net Patient Service Revenue, Patient Accounts Receivable and Concentration of Credit Risk**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. The Corporation provides care to certain patients under Medicare, Medicaid, County Welfare and Blue Cross reimbursement arrangements. The Medicare program pays for acute inpatient services and a portion of capital at predetermined rates. Skilled nursing services, home health services, rehabilitation services, psychiatric services, out-patient services and a portion of capital are reimbursed by Medicare at interim rates with an annual settlement based upon allowable costs.

Medicaid reimbursement, which varies by state, is generally based on a prospectively determined rate per discharge for inpatient services and reimbursement for outpatient services is on a fee for service basis, as defined. Reimbursement by County Welfare and Blue Cross programs also vary and may be either at predetermined rates or at interim rates with an annual settlement based upon allowable costs. Reported costs and services provided under the reimbursement arrangements with Medicare and Medicaid are subject to retroactive audit and adjustment. Provision has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and estimated total payments to be received from third-party payors. Management believes that adjustments, if any, which ultimately may result from final determination of amounts to be received under these contracts, should not have a material effect on the consolidated financial statements.

The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis of payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 2. Net Patient Service Revenue, Patient Accounts Receivable and Concentration of Credit Risk, continued

For the years ended December 31, 1998 and 1997, approximately 93% and 85%, respectively, of net patient service revenue is subject to the provisions of third-party payor contracts.

The Health Centers and Nursing Homes grant credit without collateral to patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 1998 and 1997, was as follows:

	1998	1997
Medicare	34 %	34 %
Medicaid	11	8
Other third-party payors	46	47
Patients	9	11
	<u>100 %</u>	<u>100 %</u>

### 3. Charity Care and Social Accountability

The Corporation and its member Health Centers and Nursing Homes are not-for-profit health care providers established to meet the health care needs of area residents and are legally required to provide emergency services before determining the source of payment. Further, care is provided without charge or at amounts less than established rates to patients who meet certain criteria under various charity care policies. Because collection is not pursued, amounts determined to qualify as charity care are not reported as revenue. The Health Centers and Nursing Homes maintain records to identify and monitor the level of charity care they provide. The amount of charity care provided during the years ended December 31, 1998 and 1997 at the Health Centers' and Nursing Homes' established rates approximated \$17.5 million and \$23.9 million, respectively.

In addition to charity care, the Corporation and its member Health Centers and Nursing Homes also incurred a shortfall from services rendered to patients covered by certain public programs. This shortfall is defined as the cost of providing services to Medicaid and Medicare beneficiaries in excess of government payments. In addition, the Corporation and its member Health Centers and Nursing Home provided other community benefits including community education and research. The public programs' shortfalls and other community benefits approximate \$75.7 million (unaudited) for 1998 and \$86.0 million (unaudited) for 1997.



# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 4. Investments and Assets Limited As to Use

The composition of investments, including assets limited as to use, at December 31, 1998 and 1997 is as follows:

	1998	1997
	(in thousands)	
Unrestricted:		
Assets held by bond trustees	\$ 99,526	\$ 118,334
Assets held for estimated insurance liabilities	78,914	91,836
Board designated for services for the poor	2,926	2,730
Board designated funded depreciation and other Board projects	<u>572,805</u>	<u>517,637</u>
	754,171	730,537
Temporarily restricted	4,994	3,487
Permanently restricted	<u>5,846</u>	<u>5,451</u>
	<u>\$ 765,011</u>	<u>\$ 739,475</u>

Investments, which comprise assets limited as to use at December 31, 1998 and 1997, consist of the following:

	1998	1997
	(in thousands)	
Cash and cash equivalents	\$ 20,840	\$ 71,119
Pooled funds	506,054	-
Obligations of the U. S. Government and its agencies	93,982	207,973
Guaranteed investment contracts	99,526	219,102
Corporate debt obligations	15,500	82,097
Marketable equity securities	10,449	130,243
Mutual funds	5,285	7,944
Other	<u>13,375</u>	<u>20,997</u>
Totals	765,011	739,475
Less short-term investments	<u>1,247</u>	<u>3,999</u>
Investments, classified as noncurrent	<u>\$ 763,764</u>	<u>\$ 735,476</u>

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 4. Investments and Assets Limited As to Use, continued

At December 31, 1998, approximately \$506 million of the Corporation's investments are invested in two pooled accounts coordinated through the Daughters of Charity National Health System ("DCNHS") Health System Depository (the "HSD") under cash and investment management agreements. The trustee-held assets are managed by professional investment firms and there are two types of funds within this program, the short-term fund and the long-term fund. The short-term fund is invested in a variety of fixed income investments and approximately 70% of the short-term fund is invested in instruments with the maximum maturity not to exceed one year. The long-term fund currently has an asset allocation of 40% equities, 55% fixed income and 5% cash. The HSD operates the investment pools using the market value method. Under this method, net earnings of the HSD are allocated to investing participants on a pro-rata basis. The Corporation's interest in the pooled accounts is included in the financial statements at the fair value of the underlying investments based on quoted market prices.

Return on investments was as follows for the years ended December 31, 1998 and 1997:

	1998 (in thousands)	1997
Income:		
Board designated funds and assets held for estimated insurance liabilities	\$ 40,218	\$ 29,412
Assets held by bond trustees, included in other operating revenue	6,459	-
Interest income	46,677	29,412
Net realized gains on sales of securities	47,611	10,774
	<u>\$ 94,288</u>	<u>\$ 40,186</u>
Other changes in unrestricted net assets:		
Change in net unrealized investment gains and losses	<u>\$ (21,894)</u>	<u>\$ 21,873</u>

### 5. Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 1998 and 1997 follows:

	1998 (in thousands)	1997
Land and land improvements	\$ 48,969	\$ 41,838
Buildings and building equipment	517,048	494,740
Departmental equipment	322,234	312,990
Construction in progress	17,236	4,812
	<u>905,487</u>	<u>854,380</u>
Less accumulated depreciation	481,810	457,534
	<u>\$ 423,677</u>	<u>\$ 396,846</u>

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 6. Long-Term Debt

Long-term debt at December 31, 1998 and 1997 consists of the following:

	1998	1997
	(in thousands)	
Indiana Health Facility Financing Authority:		
Hospital Revenue Bonds, Series 1997A, Sisters of St. Francis Health Services, Inc. Project, dated November 1, 1997, with interest rates ranging from 5.0% to 5.75%, principal payable in annual installments ranging from \$2,940,000 and to \$9,240,000, interest payable semiannually, with final maturity on November 1, 2027	\$ 166,525	\$ 169,465
Illinois Development Finance Authority:		
Hospital Revenue Bonds, Series 1997B, Sisters of St. Francis Health Services, Inc. Project, dated November 1, 1997, with interest rates ranging from 3.90% to 5.75%, principal payable in annual installments ranging from \$525,000 to \$1,710,000, interest payable semiannually, with final maturity on November 1, 2027	30,010	30,535
Other	9,890	875
Less bond discount on Series 1997A and 1997B Hospital Revenue Bonds	<u>(3,252)</u>	<u>(3,374)</u>
Total	203,173	197,501
Less current portion	<u>8,051</u>	<u>4,583</u>
Long-term debt	<u>\$ 195,122</u>	<u>\$ 192,918</u>

Principal payments on long-term debt for each of the next five years are as follows: 1999 - \$8,051,000; 2000 - \$8,530,000; 2001 - \$4,583,000; and 2002 - \$4,736,000; and 2003 - \$4,322,000.

Total interest cost incurred amounted to \$12,194,000 and \$5,858,000 in 1998 and 1997, respectively. Interest expense capitalized was \$79,000 and \$49,000 in 1998 and 1997, respectively, net of capitalized interest income of \$11,000 in 1997.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **6. Long-Term Debt, continued**

#### **Series 1997A and 1997B Hospital Revenue Bonds**

In November 1997, the Corporation, in connection with the Indiana Health Facility Financing Authority and the Illinois Development Finance Authority, issued \$200,000,000 of Series 1997A and 1997B Hospital Revenue Bonds. The Corporation used the bond proceeds to refund existing debt, to pay for prior capital expenditures, and to finance future capital projects. The Corporation's master trust indenture and loan agreement include covenants which require the Corporation to maintain a minimum debt service coverage ratio and limit the Corporation's ability to encumber certain of its assets. The Corporation provides financing to its member health centers (designated group affiliates) with the proceeds from the hospital revenue bonds.

The refunding of existing debt by the Corporation resulted in an early extinguishment of debt through a legal defeasance. The Corporation purchased U.S. Government obligations and deposited those securities into an irrevocable trust which serves the sole purpose of funding payments of principal and interest through the defeased debt's stated maturity. The defeased debt may not be redeemed prior to maturity.

The Corporation recognized a \$2.2 million loss on early extinguishment of debt which is reported as an extraordinary loss in the 1997 consolidated statement of operations.

The Corporation's long-term debt at December 31, 1998 and 1997 approximates its fair value.

### **7. Pension Plan Benefits**

The Corporation has noncontributory defined benefit pension plans covering substantially all of its employees. The benefits are based on years of service and participant compensation, as defined.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 7. Pension Plan Benefits, continued

Changes in benefit obligations, changes in plan assets, components of net periodic pension cost and weighted average assumptions are as follows:

	1998	1997
	(in thousands)	
<b>Change in benefit obligation:</b>		
Benefit obligation, beginning of year	\$ 242,618	\$ 261,818
Service cost	10,903	12,515
Interest cost	16,781	19,863
Plan amendments	7,912	-
Actuarial (gain) loss	(3,273)	10,203
Benefits paid	(10,718)	(11,227)
Transfer of benefit obligation (see Note 11)	-	(50,554)
Benefit obligation, end of year	<u>264,223</u>	<u>242,618</u>
<b>Change in plan assets:</b>		
Fair value of plan assets, beginning of year	260,178	303,421
Actual return on plan assets	27,791	50,309
Employer contributions	1,826	2,623
Benefits paid	(10,718)	(11,227)
Transfer of plan assets (see Note 11)	-	(84,948)
Fair value of plan assets, end of year	<u>279,077</u>	<u>260,178</u>
Funded status	14,854	17,560
Unrecognized net actuarial gain	(25,411)	(16,839)
Unrecognized prior service cost	9,585	2,519
Unrecognized transition asset	(3,786)	(4,710)
Accrued pension cost, net, prior to adjustment for minimum pension liability	(4,758)	(1,470)
Adjustment to recognize minimum pension liability	-	(715)
Accrued pension cost, net	<u>\$ (4,758)</u>	<u>\$ (2,185)</u>
<b>Components of net periodic pension cost:</b>		
Service cost	\$ 10,903	\$ 12,515
Interest cost	16,781	19,863
Expected return on plan assets	(21,787)	(36,277)
Net amortization and deferrals	(75)	8,106
Recognized actuarial gain	(637)	(499)
Effect of curtailment and settlement (see Note 11)	-	(2,063)
Net periodic pension cost	<u>\$ 5,185</u>	<u>\$ 1,645</u>
<b>Weighted-average assumptions as of December 31:</b>		
Discount rate	7.00%	7.125%
Expected return on plan assets	8.5%	8.5%
Rate of compensation increase	4.5%	4.5%

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 7. Pension Plan Benefits, continued

The net prepaid (accrued) pension cost is classified in the consolidated balance sheets as follows:

	1998	1997
	(in thousands)	
Other assets	\$ 16,900	\$ 13,753
Accrued payroll and related expenses	-	(4,461)
Other liabilities	(21,658)	(11,477)
Accrued pension cost, net	<u>\$ (4,758)</u>	<u>\$ (2,185)</u>

During 1997 the plan assets and related prepaid pension cost of St. Francis Hospital of Evanston ("SFHE") were transferred to Resurrection Health Care Corporation in connection with a change in sponsorship of SFHE (see Note 11). Periodic pension cost in 1997 includes pension costs for 1997 through the date of the transfer.

### 8. Estimated Insurance Liabilities

The Corporation's wholly owned captive insurance subsidiary provides certain professional and general liability coverage for its member health centers and other entities. In addition, the Corporation has established a self-insured trust to provide long-term disability and workers' compensation coverage for its employees.

The captive insurance subsidiary and the self-insured trust have provided for reported losses and for losses incurred but not reported, based on projections by independent actuaries from information provided by the Corporation's management and insurance consultants. The estimated insurance liabilities, which consist of professional, general liability, long-term disability insurance, and workers' compensation insurance including amounts self-insured by the Corporation for allocated loss adjustment expenses, approximate \$49.5 million and \$54.3 million at December 31, 1998 and 1997, respectively.

The captive insurance subsidiary purchases reinsurance coverage which limits the Corporation's exposure on individual claims. In addition, the Corporation has obtained excess insurance coverage from several commercial insurance companies. In the unlikely event that any or all of the insurance or reinsurance companies might be unable to meet their obligations under the existing agreements, the Corporation would be liable for such defaulted amounts.

## **Sisters of St. Francis Health Services, Inc. and Affiliates**

### **Notes to Consolidated Financial Statements, Continued**

#### **8. Estimated Insurance Liabilities, continued**

Claims have been assessed against the Corporation by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. Counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents occurring through December 31, 1998 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. While it is possible that settlement of asserted claims and claims which may be assessed in the future could result in liabilities in excess of amounts provided by the Corporation, management believes that the excess liability, if any, will not materially affect the consolidated financial position of the Corporation at December 31, 1998.

#### **9. Hospital Affiliations**

##### **St. Margaret Mercy Healthcare Centers, Inc.**

Effective at the close of business on December 31, 1991, and pursuant to the Agreement to Transfer Hospitals (the "Transfer Agreement"), Saint Margaret Hospital and Health Centers ("St. Margaret"), Hammond, Indiana, an operating division of the Corporation, and Our Lady of Mercy Hospital, Dyer, Indiana, an operating division of the Sisters of Mercy Health Corporation of Farmington Hills, Michigan, now known as Mercy Health Services ("MHS"), transferred their assets and liabilities to St. Margaret Mercy Healthcare Centers, Inc. ("SMMHC"), a newly formed corporation under the control of the Corporation. The Corporation and MHS are the sole members of SMMHC.

In connection with the Transfer Agreement, SMMHC is obligated under the terms of a Contribution and Funding Agreement, dated December 31, 1991, to (i) make an annual cash distribution ("annual grant") to MHS and (ii) offer to make an annual grant to the Corporation. The annual grants are based on the SMMHC's cash flows, as defined, and cannot exceed a defined "base grant amount."

In addition, in the event the SMMHC does not achieve certain financial ratios, as defined in the Contribution and Funding Agreement, MHS would be required to make certain contributions to SMMHC. At December 31, 1998 and 1997, MHC's interest in SMMHC's net assets, payable only in the event of a liquidation, approximated \$71.9 million and \$66.6 million, respectively.

# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **10. Investments in Managed Care Networks**

In 1995, the Corporation became a party to a Limited Liability Company Agreement (the "LLC Agreement") whereby the Corporation became a founding member of Accord Health Network LLC ("Accord"). The LLC Agreement, as amended, requires that the Corporation, and each of the other members, make initial capital contributions of \$4 million each, payable over the period 1995 to 1998. At December 31, 1998 and 1997, the Corporation's investment in Accord aggregated \$3.9 million and \$2.9 million, respectively. The Corporation accounted for the Accord investment using the cost method of accounting in 1998 and the equity method in 1997.

During 1997 Alverno Beech Grove, a subsidiary of Alverno, transferred its 25% interest in Sagamore Health Plan ("Sagamore") to the Corporation for \$1.66 million. At December 31, 1998 and 1997, the Corporation's investment in Sagamore aggregated \$1.57 million and \$1.29 million, respectively. The Corporation accounts for the Sagamore investment using the equity method.

The equity in net losses of equity affiliates amounted to \$1,095,000 and \$1,275,500 for the years ended December 31, 1998 and 1997, respectively.

### **11. Transfers and Dispositions**

#### **Transfer of Memorial Hospital, Michigan City, Indiana**

Effective July 1, 1997, Alverno became the sole member of Memorial Hospital of Michigan City Foundation, Inc. ("Memorial") in exchange for cash and the assumption of certain liabilities. Subsequently, Alverno, with the approval of Memorial's Board of Directors, transferred substantially all of Memorial's net assets and operations to St. Anthony Memorial Health Centers, an operating division of the Corporation, in exchange for the same consideration paid by Alverno. This transaction was accounted for as a purchase of Memorial by St. Anthony Memorial Health Centers and, accordingly, the results of operations of Memorial are included in the consolidated financial statements as of that date. The excess purchase price over fair value of acquired tangible assets, which aggregated \$2.5 million, was allocated to intangible assets and is being amortized over five years using the straight-line method. During the year ended December 31, 1998, two preacquisition contingencies assumed in the acquisition of Memorial were settled and were accounted for as current year adjustments of the purchase price allocation. The effect was a reduction of \$1.4 million of the amounts originally allocated to intangible assets.



# **Sisters of St. Francis Health Services, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements, Continued**

### **11. Transfers and Dispositions, continued**

#### **Transfer of St. Francis Hospital of Evanston, Evanston, Illinois**

On November 30, 1997, the Corporation transferred membership of St. Francis Hospital of Evanston ("SFHE"), a subsidiary of the Corporation, to Resurrection Health Care Corporation ("RHCC"). Consideration received for the transfer was based on the carrying value of the net assets transferred. The Corporation received cash and investments approximating \$261 million in exchange for the net assets of SFHE and no gain or loss resulted from the transaction. A portion of the cash and investments received amounting to \$50 million was transferred to SSFPA Ministry Corporation, an entity under the sponsorship of the Sisters of St. Francis of Perpetual Adoration. This amount represents the approximate present value of previous contributions made by the Sisters of St. Francis of Perpetual Adoration to SFHE. The results of operations of SFHE through the date of disposition are included in the Corporation's consolidated financial statements for the year ended December 31, 1997.

In connection with the transaction, the Sisters of St. Francis of Perpetual Adoration and the Sisters of the Resurrection, corporate sponsors of the Corporation and RHCC, respectively, (collectively the "Health Care Systems") entered into a co-sponsorship arrangement. Under terms of the co-sponsorship arrangement, shared governance of the Health Care Systems through cross-board representation is designed to provide for direction of resources deployed for the good of the communities being served under the core guiding principles of Catholic health care.

#### **Sale of St. Joseph Hospital and Health Centers, Memphis, Tennessee**

On November 30, 1997, the Corporation sold real property and certain equipment and fixtures of St. Joseph Hospital and Health Centers ("SJHHC"), an operating division of the Corporation, to American Lebanese Syrian Associated Charities, Inc. ("ALSAC"). Also on November 30, 1997, the Corporation sold substantially all other assets and operations of SJHHC to Baptist Memorial Hospital-Memphis ("BMH"). The sales were based on fair value of the assets sold less liabilities assumed by BMH, and total proceeds from the sales were \$26.5 million. The sale of assets resulted in an aggregate gain of \$4.92 million which included a gain of \$2.85 million for the difference between the consideration received and the carrying value of the net assets sold, and a gain of \$2.06 million for the effect of the curtailment of SJHHC's pension plan. The results of operations of SJHHC through the date of disposition are included in the Corporation's consolidated financial statements for the year ended December 31, 1997.

Of total sales proceeds, \$5 million was deposited to an escrow account, held for payment of certain liabilities of the Corporation which are contingent upon the Corporation's performance of certain provisions of the sales agreement with ALSAC, as defined. During 1998, the Corporation received approximately \$3.3 from this escrow account. Under terms of an escrow agreement, disbursements from the escrow account may be made upon joint written instructions of the Corporation and ALSAC, with any remaining balance at December 1, 2007 released to the Corporation.

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Notes to Consolidated Financial Statements, Continued

### 11. Transfers and Dispositions, continued

#### Sale of St. Joseph Hospital and Health Centers, Memphis, Tennessee

In addition to proceeds on sale, the Corporation received a \$5 million endowment from BMH, the principle of which is to be held in perpetuity. Accordingly, the contribution is reported as an increase in permanently restricted net assets in the consolidated financial statements for the year ended December 31, 1997. Interest or investment earnings on the endowed funds is restricted for healthcare related uses in the Memphis community.

### 12. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related in providing these services are as follows:

	<u>At December 31,</u>	
	<u>1998</u>	<u>1997</u>
	<u>(in thousands)</u>	
Health care services	\$ 648,409	\$ 735,658
General and administrative	<u>114,735</u>	<u>109,054</u>
	<u>\$ 763,144</u>	<u>\$ 844,712</u>

### 13. Subsequent Events

#### Investment in Greater Lafayette Health Services, Inc.

Effective January 1, 1999, the Corporation contributed the net assets, as defined, and operations of St. Elizabeth Medical Center, an operating division of the Corporation, to Greater Lafayette Health Services, Inc. ("GLHS"), a newly formed Indiana not-for-profit corporation which is equally owned and jointly governed by the Corporation and North Central Health Services, Inc. ("NCHS"). Also effective January 1, 1999, NCHS contributed the net assets, as defined, and operations of its affiliate, Lafayette Home Hospital, Inc. ("Home") to GLHS. The definitive agreement between the parties required the two members of GLHS (the Corporation and NCHS) to each contribute net assets as of a measurement date (June 30, 1998) to GLHS such that the contributed net assets equaled \$90 million each. The Corporation will account for its investment in GLHS using the equity method of accounting.

## **Sisters of St. Francis Health Services, Inc. and Affiliates**

### **Notes to Consolidated Financial Statements, Continued**

#### **13. Subsequent Events, continued**

##### **Purchase of St. Anthony Medical Center, Crown Point, Indiana and Sale of the Nursing Homes**

Effective March 1, 1999, the Corporation entered into a Master Agreement and various Purchase Agreements (the "Agreement") with the Franciscan Sisters of Chicago Service Corporation ("FSCSC"), Franciscan ElderCare Services/Illinois, Inc. ("FES"), St. Anthony Medical Center, Inc. ("SAMC") and Franciscan Holding Corporation ("FHC"). Under the Agreement substantially all of the assets, certain liabilities and long-term debt of SAMC and all the issued and outstanding capital stock of FHC was acquired by and transferred to the Corporation and the Corporation sold and transferred substantially all of the assets and certain liabilities of St. Elizabeth Health Care Center, Delphi, Indiana and Franciscan Health Care Center, Louisville, Kentucky to FSCSC. The net purchase price, excluding the assumption of long-term debt, related to these transactions amounted to approximately \$55.8 million.

In addition, the Agreement called for the Corporation to sell and transfer substantially all the assets and certain liabilities of St. James Manor and St. James Villas, Crete, Illinois, and to enter into a home health and related services agreement with FSCSC.

##### **Series 1999A Hospital Revenue Bonds**

On March 1, 1999 the Corporation, in connection with the Indiana Health Facility Financing Authority, issued \$150 million Series 1999A Hospital Revenue Bonds. Proceeds of the bonds were used to acquire the hospital from SAMC.

## **Report of Independent Accountants on Supplemental Financial Information**

Board of Directors  
Sisters of St. Francis Health Services, Inc.  
Mishawaka, Indiana

Our report on the audits of the consolidated financial statements of Sisters of St. Francis Health Services, Inc. and Affiliates (collectively referred to as the "Corporation") as of December 31, 1998 and 1997 and for the years then ended appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating balance sheet schedules as of December 31, 1998 (pages 24 through 29) and the supplemental consolidating schedules of operations for the year ended December 31, 1998 (pages 30 through 33) are not necessary for fair presentation of the consolidated financial position and results of operations of the Corporation in conformity with generally accepted accounting principles. The supplemental consolidating financial statement schedules and the supplemental schedules contained on pages 34 through 38 are presented for the purpose of additional analysis and are not a required part of the basic consolidating financial statements. This supplemental financial information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

March 26, 1999

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet

December 31, 1998

(in thousands)

ASSETS	Health Centers	Nursing Homes	Catholic Health Midwest, Inc.	Corporate	Hills Insurance Company, Ltd.	St. Francis Foundation	Alverno Health Corporation and Affiliates	Eliminations	Consolidated Total
Current assets:									
Cash and cash equivalents	\$ 56,407	\$ 1,152	\$ 9,498	\$ 8,529	\$ 20,444	\$ 597	\$ 12,363		\$ 108,990
Short-term investments	442						805		1,247
Patient accounts receivable, net of allowance for doubtful accounts	120,906	2,963							123,869
Inventories of supplies	10,108	71					284		10,463
Estimated third-party payor settlements		372		3,524					3,896
Other current assets	13,136	25	3,779	9,136	1,071	320	12,360	(13,812)	26,015
Total current assets	200,999	4,583	13,277	21,189	21,515	917	25,812	(13,812)	274,480
Investments, including assets limited as to use	297,929			392,882	67,528	551	4,874		763,764
Property, plant and equipment, net	384,333	7,999	19,140	9,466		12	2,727		423,677
Other assets	25,636	8	457	178,762		514	1,007	(153,640)	52,744
Total assets	\$ 908,897	\$ 12,590	\$ 32,874	\$ 602,299	\$ 89,043	\$ 1,994	\$ 34,420	\$ (167,452)	\$ 1,514,665

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet, Continued

December 31, 1998

(In thousands)

LIABILITIES AND NET ASSETS	Health Centers	Nursing Homes	Catholic Health Midwest, Inc.	Corporate	Hills Insurance Company, Ltd.	St. Francis Foundation	Alverno Health Corporation and Affiliates	Eliminations	Consolidated Total
Current liabilities:									
Current portion of long-term debt	\$ 7,101	\$ 106	\$ 575	\$ 3,635				\$ (3,366)	\$ 8,051
Accounts payable and accrued expenses	42,297	838	4,307	7,205	\$ 967	\$ 44	\$ 11,098	(11,367)	55,389
Accrued payroll and related expenses	24,426	354	2,220	1,502			981		29,483
Estimated third-party payor settlements	19,009	323		1,057					20,389
Total current liabilities	92,833	1,621	7,102	13,399	967	44	12,079	(14,733)	113,312
Long-term debt, net of current portion	93,984	5,185	6,541	190,427				(101,015)	195,122
Other liabilities	21,083			1,686			650	(1,140)	22,279
Estimated insurance liabilities	3,699			8,304	37,512				49,515
Total liabilities	211,599	6,806	13,643	213,816	38,479	44	12,729	(116,888)	380,228
Common stock					120			(120)	-
Additional paid-in capital					26			(26)	-
Retained earnings					50,418			(50,418)	-
Net assets:									
Unrestricted	693,422	5,784	19,231	383,361		108	21,691		1,123,597
Temporarily restricted	3,423			122		1,449			4,994
Permanently restricted	453			5,000		393			5,846
Total net assets	697,298	5,784	19,231	388,483	50,564	1,950	21,691	(50,564)	1,134,437
Total liabilities and net assets	\$ 908,897	\$ 12,590	\$ 32,874	\$ 602,299	\$ 89,043	\$ 1,994	\$ 34,420	\$ (167,452)	\$ 1,514,665

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet - Health Centers

December 31, 1998

(In thousands)

ASSETS	St. Anthony Memorial Michigan City	St. Elizabeth Lafayette	St. Francis Beech Grove/ Indianapolis	St. James Chicago Heights	St. Margaret Mercy Hammond/ Dyer	Total Health Centers
Current assets:						
Cash and cash equivalents	\$ 9,557	\$ 14,027	\$ 20,529	\$ 3,269	\$ 9,025	\$ 56,407
Short-term investments		442				442
Patient accounts receivable, net of allowance for doubtful accounts	10,680	17,588	32,833	20,371	39,434	120,906
Inventories of supplies	1,157	2,069	2,700	728	3,454	10,108
Other current assets	1,118	3,956	3,322	2,194	2,546	13,136
Total current assets	22,512	38,082	59,384	26,562	54,459	200,999
Investments, including assets limited as to use	43,347	31,712	84,365	16,673	121,832	297,929
Property, plant and equipment, net	28,767	54,062	123,968	54,946	122,590	384,333
Other assets	778	1,165	1,507	663	21,523	25,636
Total assets	<u>\$ 95,404</u>	<u>\$ 125,021</u>	<u>\$ 269,224</u>	<u>\$ 98,844</u>	<u>\$ 320,404</u>	<u>\$ 908,897</u>

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet - Health Centers, Continued

December 31, 1998

(In thousands)

LIABILITIES AND NET ASSETS	St. Anthony Memorial Michigan City	St. Elizabeth Lafayette	St. Francis Beech Grove/ Indianapolis	St. James Chicago Heights	St. Margaret Mercy Hammond/ Dyer	Total Health Centers
Current liabilities:						
Current portion of long-term debt	\$ 144	\$ 365	\$ 1,301	\$ 892	\$ 4,399	\$ 7,101
Accounts payable and accrued expenses	2,255	9,396	7,884	7,389	15,373	42,297
Accrued payroll and related expenses	2,312	2,706	8,110	3,479	7,819	24,426
Estimated third-party payor settlements	3,328	758	6,031	2,074	6,818	19,009
Total current liabilities	8,039	13,225	23,326	13,834	34,409	92,833
Long-term debt, net of current portion	2,636	16,654	43,310	9,559	21,825	93,984
Other liabilities	2,815	5,081	1,212		11,975	21,083
Estimated insurance liabilities	345	300	900	1,474	680	3,699
Total liabilities	13,835	35,260	68,748	24,867	68,889	211,599
Net assets:						
Unrestricted	81,098	88,666	200,476	72,919	250,263	693,422
Temporarily restricted	355	758		1,058	1,252	3,423
Permanently restricted	116	337				453
Total net assets	81,569	89,761	200,476	73,977	251,515	697,298
Total liabilities and net assets	\$ 95,404	\$ 125,021	\$ 269,224	\$ 98,844	\$ 320,404	\$ 908,897



# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet - Nursing Homes

December 31, 1998

(In thousands)

	St. Elizabeth Health Care Center Delphi	Franciscan Health Care Center Louisville	St. James Manor Crete	Total Nursing Homes
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 210	\$ 845	\$ 97	\$ 1,152
Patient accounts receivable, net of allowance for doubtful accounts	371	1,975	617	2,963
Inventories of supplies	46	24	1	71
Estimated third-party payor settlements	164	208		372
Other current assets	3	17	5	25
Total current assets	794	3,069	720	4,583
Property, plant and equipment, net	1,630	3,300	3,069	7,999
Other assets	8			8
Total assets	<u>\$ 2,432</u>	<u>\$ 6,369</u>	<u>\$ 3,789</u>	<u>\$ 12,590</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Current portion of long-term debt	\$ 55	\$ 51		\$ 106
Accounts payable and accrued expenses	455	348	\$ 35	838
Accrued payroll and related expenses	143	177	34	354
Estimated third-party payor settlements			323	323
Total current liabilities	653	576	392	1,621
Long-term debt, net of current portion	2,298	2,887		5,185
Total liabilities	2,951	3,463	392	6,806
Unrestricted net assets (deficit)	(519)	2,906	3,397	5,784
Total liabilities and net assets	<u>\$ 2,432</u>	<u>\$ 6,369</u>	<u>\$ 3,789</u>	<u>\$ 12,590</u>

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Balance Sheet - Catholic Health Midwest, Inc.

December 31, 1998

(In thousands)

<b>ASSETS</b>	<b>Alverno Information Services</b>	<b>Alverno Receivables Services</b>	<b>Alverno Group Purchasing</b>	<b>Total Catholic Health Midwest, Inc.</b>
Current assets:				
Cash and cash equivalents	\$ 7,777	\$ 705	\$ 1,016	\$ 9,498
Other current assets	3,429	75	275	3,779
Total current assets	11,206	780	1,291	13,277
Property, plant and equipment, net	18,646	449	45	19,140
Other assets	123	2	332	457
Total assets	<u>\$ 29,975</u>	<u>\$ 1,231</u>	<u>\$ 1,668</u>	<u>\$ 32,874</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Current portion of long-term debt	\$ 555	\$ 20		\$ 575
Accounts payable and accrued expenses	3,343	389	\$ 575	4,307
Accrued payroll and related expenses	1,938	192	90	2,220
Total current liabilities	5,836	601	665	7,102
Long-term debt, net of current portion	6,335	206		6,541
Unrestricted net assets	17,804	424	1,003	19,231
Total liabilities and net assets	<u>\$ 29,975</u>	<u>\$ 1,231</u>	<u>\$ 1,668</u>	<u>\$ 32,874</u>

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Statement of Operations

for the year ended December 31, 1998  
(In thousands)

	Health Centers	Nursing Homes	Catholic Health Midwest, Inc.	Corporate	Hillis Insurance Company Ltd.	St. Francis Foundation	Alverno Health Corporation and Affiliates	Eliminations	Consolidated Total
Unrestricted revenues, gains and other support:									
Net patient service revenue	\$ 674,660	\$ 14,540							\$ 689,200
Other operating revenue	32,671	363	\$ 26,054	\$ 17,683	\$ 1,431		\$ 82,304	\$ (49,555)	110,951
Net assets released from restrictions used for operations	270								270
Total revenues, gains and other support	707,601	14,903	26,054	17,683	1,431		82,304	(49,555)	800,421
Operating expenses:									
Salaries	275,768	6,690	11,329	7,075			12,325	(6,890)	306,297
Employee benefits	65,617	1,231	1,718	(2,322)			3,377		69,621
Physicians' compensation	7,619						21		7,640
Utilities	11,515	280	3	190			518		12,506
Repairs and maintenance	12,567	24					715		13,306
Drugs and pharmaceuticals	45,636						52		45,688
Insurance	3,485	15		133			602	(1,431)	2,804
Other supplies and expenses	162,250	4,531	7,415	2,450	3,720		62,593	(40,567)	202,392
Provision for doubtful accounts	37,893	245					291		38,429
Interest	5,210	269	491	6,007			138		12,115
Depreciation and amortization	46,684	653	4,080	382			547		52,346
Total expenses	674,244	13,938	25,036	13,915	3,720		81,179	(48,888)	763,144
Operating income (loss)	33,357	965	1,018	3,768	(2,289)		1,125	(667)	37,277
Other income (expense):									
Investment income	41,963			42,578	5,287	\$ 23	976	(2,998)	87,829
Contributions	879					(409)		328	798
Other net	(726)			17			(2,895)		(3,604)
Net assets released from restrictions						576			576
Total other income, net	42,116			42,595	5,287	190	(1,919)	(2,670)	85,599
Excess of revenues over expenses	75,473	965	1,018	46,363	2,998	190	(794)	(3,337)	122,876
Change in net unrealized investment gains and losses	(15,092)			(6,854)			51		(21,894)
Equity transfers (to) from affiliates, net	13,203			(22,620)			8,560	339	(518)
Equity distribution to Mercy Health Services	(1,755)								(1,755)
Beginning net assets of Alverno and Foundation, previously not consolidated						(83)	13,874		13,791
Contributions of property, plant and equipment									3
Net assets released from restrictions used for purchase of property, plant and equipment	429								429
Increase in unrestricted net assets	\$ 72,261	\$ 965	\$ 1,018	\$ 16,889	\$ 2,998	\$ 108	\$ 21,691	\$ (2,998)	\$ 112,932

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Statement of Operations - Health Centers

for the year ended December 31, 1998

(In thousands)

	St. Anthony Memorial Michigan City	St. Elizabeth Lafayette	St. Francis Beech Grove/ Indianapolis	St. James Chicago Heights	St. Margaret Mercy Hammond/ Dyer	Total Health Centers
Unrestricted revenues, gains, and other support:						
Net patient service revenue	\$ 75,918	\$ 87,499	\$ 211,124	\$ 98,888	\$ 201,231	\$ 674,660
Other operating revenue	1,919	4,288	8,209	5,277	12,978	32,671
Net assets released from restrictions used for operations					270	270
Total revenues, gains and other support	77,837	91,787	219,333	104,165	214,479	707,601
Operating expenses:						
Salaries	25,815	33,339	92,143	43,738	80,733	275,768
Employee benefits	7,337	9,263	19,435	9,822	19,760	65,617
Physicians' compensation	977	692	3,400	1,176	1,374	7,619
Utilities	887	1,329	3,041	1,760	4,498	11,515
Repairs and maintenance	1,582	1,996	3,506	1,931	3,552	12,567
Drugs and pharmaceuticals	2,703	5,140	8,022	4,599	25,172	45,636
Insurance	397	307	306	1,565	910	3,485
Other supplies and expenses	21,879	24,366	55,194	25,217	35,594	162,250
Provision for doubtful accounts	4,102	5,300	5,353	10,457	12,681	37,893
Interest	104	784	2,406	494	1,422	5,210
Depreciation and amortization	4,226	6,150	15,054	5,726	15,528	46,684
Total expenses	70,009	88,666	207,860	106,485	201,224	674,244
Operating income (loss)	7,828	3,121	11,473	(2,320)	13,255	33,357
Other income (expenses):						
Investment income	7,784	1,314	7,885	1,509	23,471	41,963
Contributions	41	301		537		879
Other, net	144	366	11	(57)	(1,190)	(726)
Total other income, net	7,969	1,981	7,896	1,989	22,281	42,116
Excess (deficiency) of revenues over (under) expenses	15,797	5,102	19,369	(331)	35,536	75,473
Change in net unrealized investment gains and losses	(2,296)	21	(1,695)	(13)	(11,109)	(15,092)
Equity transfers (to) from affiliates, net	(243)	19,710	(383)	(608)	(5,273)	13,203
Equity distribution to Mercy Health Services					(1,755)	(1,755)
Contributions of property, plant and equipment					3	3
Net assets released from restrictions used for purchase of property, plant and equipment	110	113		206		429
Increase (decrease) in unrestricted net assets	\$ 13,368	\$ 24,946	\$ 17,291	\$ (746)	\$ 17,402	\$ 72,261

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Statement of Operations - Nursing Homes

for the year ended December 31, 1998  
(In thousands)

	St. Elizabeth Health Care Center Delphi	Franciscan Health Care Center Louisville	St. James Manor Crete	Total Nursing Homes
Net patient service revenue	\$ 3,048	\$ 7,196	\$ 4,296	\$ 14,540
Other operating revenue	46	214	103	363
	<u>3,094</u>	<u>7,410</u>	<u>4,399</u>	<u>14,903</u>
Total revenues, gains and other support				
Operating expenses:				
Salaries	1,447	2,904	2,339	6,690
Employee benefits	154	515	562	1,231
Utilities	65	105	110	280
Repairs and maintenance			24	24
Insurance			15	15
Other supplies and expenses	1,054	2,453	1,024	4,531
Provision for doubtful accounts	63	169	13	245
Interest	121	148		269
Depreciation and amortization	137	229	287	653
	<u>3,041</u>	<u>6,523</u>	<u>4,374</u>	<u>13,938</u>
Total expenses				
Increase in unrestricted net assets	\$ 53	\$ 887	\$ 25	\$ 965

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Consolidating Statement of Operations - Catholic Health Midwest, Inc.

for the year ended December 31, 1998

(In thousands)

<b>ASSETS</b>	<b>Alverno Information Services</b>	<b>Alverno Receivables Services</b>	<b>Alverno Group Purchasing</b>	<b>Total Catholic Health Midwest, Inc.</b>
Total operating revenue	\$ 21,973	\$ 3,241	\$ 840	\$ 26,054
Operating expenses:				
Salaries	9,635	1,452	242	11,329
Employee benefits	1,302	376	40	1,718
Utilities			3	3
Other supplies and expenses	5,732	1,240	443	7,415
Interest	482	9		491
Depreciation and amortization	3,949	116	15	4,080
Total expenses	21,100	3,193	743	25,036
Operating income	873	48	97	1,018
Net income and increase in unrestricted net assets	\$ 873	\$ 48	\$ 97	\$ 1,018

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Patient Accounts Receivable and Related Data - Health Centers

December 31, 1998 and 1997

(In thousands except percentages and average days)

	1998		1997		Increase (Decrease)		Average Day's Charges in Patient Accounts Receivable, Net	
	Patient Accounts Receivable, Net of Contractual Allowances	Allowance for Doubtful Accounts	Patient Accounts Receivable, Net	1998	Amount	Percentage	1998	1997
St. Anthony Memorial, Michigan City	\$ 14,862	\$ 4,182	\$ 10,680	\$ 12,188	\$ (1,508)	(12.4) %	51.3	61.7
St. Elizabeth, Lafayette	21,100	3,512	17,588	16,134	1,454	9.0	73.4	71.5
St. Francis, Beech Grove/Indianapolis	40,040	7,207	32,833	36,883	(4,050)	(11.0)	58.2	68.5
St. James, Chicago Heights	23,352	2,981	20,371	22,231	(1,860)	(8.4)	73.4	82.3
St. Margaret Mercy, Hammond/Dyer	50,859	11,425	39,434	34,097	5,337	15.7	71.5	65.5
	<u>\$ 150,213</u>	<u>\$ 29,307</u>	<u>\$ 120,906</u>	<u>\$ 121,533</u>	<u>\$ (627)</u>	<u>(0.5) %</u>	<u>65.7</u>	<u>69.4</u>

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Service Statistics - Health Centers

for the year ended December 31, 1998

(Unaudited)

	St. Anthony Memorial Michigan City	St. Elizabeth Lafayette	St. Francis Beech Grove/ Indianapolis	St. James Chicago Heights	St. Margaret Mercy Hammond/ Dyer	Total
Patient days:						
Medical and surgical	22,912	23,285	63,475	32,855	70,496	213,023
Intensive care and coronary care	2,677	4,101	6,706	3,964	6,801	24,249
Obstetrical	1,907	1,012	5,950	3,080	5,128	17,077
Pediatrics	2,403	938	2,340	2,058	4,696	12,435
Psychiatric/rehabilitation	6,682	N/A	3,002	N/A	16,111	25,795
Skilled nursing unit	5,582	6,630	N/A	N/A	17,492	29,704
Other	452	N/A	N/A	3,834	4,743	9,029
	<u>42,615</u>	<u>35,966</u>	<u>81,473</u>	<u>45,791</u>	<u>125,467</u>	<u>331,312</u>
Adjusted patient days	67,392	65,227	141,609	75,116	175,852	525,196
Admissions	8,280	6,423	17,713	11,166	21,256	64,838
Discharges	8,323	6,422	17,713	11,180	20,403	64,041
Adjusted discharges	13,162	11,647	30,787	18,340	28,596	102,532
Average number in Hospital	117	99	223	125	344	182
Average length of stay (days) -acute	4	5	5	4	5	4
Average length of stay (days) - SNF	12	20	N/A	N/A	14	15
Average length of stay (days) - long-term	17	N/A	N/A	N/A	10	13
Percentage of occupancy	<u>50.98 %</u>	<u>52.69 %</u>	<u>56.65 %</u>	<u>54.31 %</u>	<u>55.53 %</u>	<u>N/A</u>
Case mix index	<u>1.05</u>	<u>1.58</u>	<u>1.24</u>	<u>1.00</u>	<u>1.15</u>	<u>N/A</u>
Nursery:						
Patient days	1,525	922	6,579	2,461	6,212	17,699
Admissions	702	344	2,523	1,097	1,815	6,481
Discharges	702	341	2,523	1,095	1,803	6,464
Actual average daily crib capacity	20	13	49	28	51	32
Average number in nursery	4	3	18	7	17	10
Average length of stay (days)	2.20	2.70	2.61	2.25	3.45	2.64
Percentage of occupancy	<u>16.71 %</u>	<u>19.43 %</u>	<u>36.79 %</u>	<u>24.08 %</u>	<u>33.37 %</u>	<u>N/A</u>
Emergency room visits	21,443	28,198	45,493	32,167	52,113	179,414
Outpatient - visits	179,835	143,195	669,482	79,186	874,594	1,946,292



# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Gross Revenue Composition by Payor - Health Centers for the year ended December 31, 1998

(Unaudited)  
(In thousands)

	St. Anthony Memorial Michigan City \$	St. Elizabeth Lafayette \$	St. Francis Beech Grove/ Indianapolis \$	St. James Chicago Heights \$	St. Margaret Mercy Hammond/Dyer \$
	%	%	%	%	%
Inpatient:					
Medicare	\$ 42,696	\$ 44,470	\$ 76,657	\$ 54,053	\$ 131,756
	56.62	60.42	43.00	44.80	53.35
Medicaid	6,285	1,770	7,309	13,798	23,765
	8.34	2.40	4.10	11.43	9.61
Blue Cros	5,592	2,131	16,401	5,629	13,351
	7.42	2.90	9.20	4.66	5.41
Managed care contracts	10,499	4,919	60,434	33,522	48,527
	13.92	6.68	33.90	27.78	19.65
Other commercial	3,980	15,211	9,627	4,893	9,699
	5.28	20.67	5.40	4.06	3.93
Self-pay and other	6,349	5,100	7,844	8,770	19,870
	8.42	6.93	4.40	7.27	8.05
	\$ 75,401	\$ 73,601	\$ 178,272	\$ 120,665	\$ 246,968
	100.00	100.00	100.00	100.00	100.00
Outpatient:					
Medicare	\$ 15,541	\$ 26,046	\$ 39,278	\$ 21,631	\$ 35,632
	35.45	43.50	29.85	28.00	35.92
Medicaid	3,421	1,776	3,934	7,027	6,566
	7.80	2.97	2.99	9.09	6.62
Blue Cross	5,987	2,020	7,316	5,333	8,383
	13.66	3.37	5.56	6.90	8.45
Managed care contracts	10,178	3,713	38,857	25,479	26,436
	23.22	6.20	29.53	32.97	26.66
Other commercial	5,297	20,834	30,343	7,328	10,043
	12.08	34.79	23.06	9.48	10.13
Self-pay and other	3,416	5,491	11,856	10,478	12,117
	7.79	9.17	9.01	13.56	12.22
	\$ 43,840	\$ 59,880	\$ 131,584	\$ 77,276	\$ 99,177
	100.00	100.00	100.00	100.00	100.00

# Sisters of St. Francis Health Services, Inc. and Affiliates

## Supplemental Schedule - Service Statistics - Nursing Homes

for the year ended December 31, 1998

(Unaudited)

	St. Elizabeth Health Care Center Delphi	Franciscan Health Care Center Louisville	St. James Manor Crete
Gross revenue composition by payor:			
Medicare	36.30 %	37.89 %	26.04 %
Medicaid	43.70	52.46	26.15
Self-pay and other	20.00	9.65	47.81
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
Patient days	24,377	48,784	34,759
Percentage of occupancy	<u>83.48 %</u>	<u>89.00 %</u>	<u>94.30 %</u>

## Sisters of St. Francis Health Services, Inc. and Affiliates

### Supplemental Schedule – Full-Time Equivalent Personnel

for the years ended December 31, 1998 and 1997

(Unaudited)

	Total FTE's		FTE's Per Adjusted Occupied Bed	
	1998	1997	1998	1997
Health Centers:				
St. Anthony Memorial - Michigan City	823	769	4.4	4.2
St. Elizabeth - Lafayette	1,005	997	5.6	5.3
St. Francis - Beech Grove/Indianapolis	2,606	2,551	6.4	6.1
St. James - Chicago Heights	1,114	1,077	5.0	4.4
St. Margaret Mercy - Hammond/Dyer	2,353	2,313	4.8	5.6
St. Francis - Evanston	-	1,586 *	-	5.5 *
St. Joseph - Memphis	-	950 *	-	5.3 *
	<u>7,901</u>	<u>10,243</u>	<u>5.2</u>	<u>5.2</u>
Nursing Homes:				
St. Elizabeth Health Care Center - Delphi	80	77		
Franciscan Health Care Center - Louisville	129	137		
St. James Manor - Crete	94	89		
St. Francis Extended Care Center - Evanston	-	73 *		
Others:				
Catholic Health Midwest Inc.	262	233		
Corporate	44	51		
Alverno Health Corporation	171	156		

\* - Total represent 11 months of operations

## **APPENDIX D**

### **SUMMARY OF PRINCIPAL DOCUMENTS**

#### **DEFINITION OF CERTAIN TERMS**

In addition to the words and terms elsewhere defined in this Official Statement, the following are definitions of certain terms used in the Master Indenture, the Indenture, the Loan Agreement and this Official Statement. Reference is hereby made to the Master Indenture, the Indenture, and the Loan Agreement for complete definitions of all terms.

"Accelerable Instrument" means any Obligation or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness evidenced by an Obligation, which Obligation or instrument provides that, upon the occurrence of an event of default under such Obligation or instrument, the holder thereof may request that the Master Trustee declare such Obligation or Indebtedness due and payable prior to the date on which it would otherwise become due and payable.

"Additional Indebtedness" means Indebtedness incurred by any Member subsequent to the issuance of the Series 1997A Obligation and the Series 1997B Obligation.

"Additional Obligations" means any obligation issued after the issuance of the Series 1997A Obligation and the Series 1997B Obligation authorized to be issued by a Member pursuant to the Master Indenture which has been authenticated by the Master Trustee.

"Adjustable Long Term Rate Period" means any Variable Rate Period from and commencing on the first Business Day of a calendar month to but not including the first Business Day of the twelfth (or any integral multiple of 12) succeeding calendar month; provided, however, that an Adjustable Long Term Rate Period which immediately succeeds a Short Term Auction Rate Period shall commence on the Variable Rate Conversion Date with respect thereto and shall continue to but not including the first Business Day of the twelfth (or any integral multiple of 12) succeeding calendar month.

"Auction Agent" means Bankers Trust Company or any successor Auction Agent appointed by the Corporation or the Bond Trustee at the direction of the Corporation in accordance with Exhibit C of the Indenture.

"Auction Date" means the Business Day immediately preceding the first day of each Auction Rate Period, other than:

- (i) each Auction Rate Period commencing after the ownership of the Bonds is no longer maintained in book-entry form by the Securities Depository;
- (ii) each Auction Rate Period commencing after the occurrence and during the continuance of a Payment Default;
- (iii) any Auction Rate Period commencing less than two Business Days after the cure of a Payment Default;
- (iv) any Auction Rate Period commencing on a proposed Conversion Date (other than a Short Term Auction Rate Conversion Date); or
- (v) the first Auction Rate Period subsequent to a Short Term Auction Rate Conversion Date.

"Auction Rate" means the rate of interest per annum that results from the periodic implementation of the Auction Procedures; provided however, that with respect to the Initial Auction Rate Period, "Auction Rate" means 5.0%.

"Auction Rate Period" means the Initial Auction Rate Period or Subsequent Auction Rate Period, as the case may be.

"Authorities" means the Illinois Authority and the Indiana Authority.

"Authorized Denomination" means with respect to any particular Bond (i) during any Short Term Auction Rate Period, \$25,000 and integral multiples in excess thereof, (ii) during any Commercial Paper, Daily, Weekly, or Quarterly Rate Period, \$100,000 and \$5,000 integral multiples in excess thereof, and (iii) during any Semiannual, Adjustable Long Term or Fixed Rate Period, \$5,000 and integral multiples thereof.

"Available Bonds" means the excess of the total principal amount of Outstanding Bonds over the sum of the aggregate principal amount of Outstanding Bonds subject to Submitted Hold Orders.

"Beneficial Owner" means, during the Short Term Auction Rate Period, a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of the Bonds.

"BMA Municipal Swap Index" means the BMA Municipal Swap Index™ as disseminated by Municipal Market Data, a Thomson Financial Services Company or its successor for the most recently preceding Business Day.

"Bondholder," "holder" or "owner of the Bonds" means the registered owner of any Related Bond.

"Bonds" means the Series 2000 A Bonds and the Series 2000 B Bonds.

"Broker-Dealer" means any broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures (i) that is a Depository Participant (or an affiliate of a Depository Participant), (ii) that has been selected by the Corporation, and (iii) that has entered into a Broker-Dealer Agreement that remains effective.

"Broker-Dealer Agreement" means each agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

"Business Day" means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the State of Indiana (with respect to the Series 2000 A Bonds) or the State of Illinois (with respect to the Series 2000 B Bonds) or the State of New York or the state in which the office of the Liquidity Facility Provider of which a draw on, or a demand for funds under the Liquidity Facility may be made is located are authorized by law to close, or (b) a day on which the New York Stock Exchange is closed.

"Capital Lease" means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee. The principal amount of Indebtedness in the form of a Capital Lease shall be deemed to be the amount, as of the date of determination, at which the aggregate Net Rentals due and to become due under such Capital Lease would be reflected as a liability on the balance sheet of the lessee determined in accordance with generally accepted accounting principles.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a Section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such Section which are applicable to the Bonds or the use of the proceeds thereof.

"Commercial Paper Dealers" means Lehman Commercial Paper Inc., Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J. P. Morgan Securities, Inc. or, in lieu of any thereof, their respective affiliates or successors, provided that any such entity is a commercial paper dealer.

"Commercial Paper Rate" means the lowest annual rate of interest, expressed as a percentage and rounded to the nearest one thousandth of one percent, determined by the Remarketing Agent on a Commercial Paper Rate Adjustment Date, which would, in the judgment of the Remarketing Agent, enable a particular Bond to be remarketed at the principal amount thereof on such Commercial Paper Rate Adjustment Date given the applicable Interest Period for such Bond (or, if the Remarketing Agent for any reason fails to determine such rate, the rate determined in accordance with the provisions set forth in the Indenture).

"Commercial Paper Rate Adjustment Date" means a Business Day on which a Commercial Paper Rate and an Interest Period for a particular Bond commence.

"Commercial Paper Rate Conversion Date" means a date on which a Bond begins to bear interest at Commercial Paper Rates which date may be the date of initial issuance of the Bonds.

"Commercial Paper Rate Period" means any period of time commencing on a Commercial Paper Rate Conversion Date and ending on a Variable Rate Conversion Date, a Short Term Auction Rate Conversion Date, a Fixed Rate Conversion Date or on the Maturity Date.

"Consultant" means a professional consulting firm acceptable to the Master Trustee, recognized as having the skill and experience necessary to render the particular report required, which firm shall have no interest, direct or indirect, in any Member or Designated Group Affiliate and shall not have any partner, member, director, officer or employee who is a partner, member, director, officer or employee of any Member or Designated Group Affiliate.

"Controlling Member" means the Member designated by the Obligated Group Agent to establish and maintain control over a Designated Group Affiliate.

"Conversion Date" means each Fixed Rate Conversion Date, Commercial Paper Rate Conversion Date, Variable Rate Conversion Date and Short Term Auction Rate Conversion Date.

"Corporation" means Sisters of St. Francis Health Services, Inc., a nonprofit corporation organized and existing under the laws of the State of Indiana, and its successors and assigns and any surviving, resulting or transferee corporation.

"Coverage Test" shall mean that the Historical Debt Service Coverage Ratio for the Obligated Group and the Designated Group Affiliates for the period in question is greater than or equal to 1.1:1.

"Daily Rate Period" means any Variable Rate Period from and commencing on a Business Day and including and ending on the first day preceding the first Business Day thereafter.

"Debt Service Requirements" means, with respect to the period of time for which calculated, the aggregate of (i) the payments required to be made in respect of principal (whether at maturity, or as a result of mandatory prepayment or otherwise) and interest on all outstanding Indebtedness of the Person or group of Persons involved, (ii) mandatory deposits to an irrevocable escrow or sinking fund, and (iii) the amount of the Obligation Payments.

"Designated Group Affiliate" means any Person which has been designated as such so long as such Person has not been further designated as no longer being a Designated Group Affiliate.

"DTC" means The Depository Trust Company (a limited purpose trust company), New York, New York, and its successors and assigns appointed pursuant to the Indenture.

"DTC Participant" means those broker-dealers, banks and other financial institutions reflected on the books of DTC.

"Escrow Obligations" means (a) with respect to any Obligations which secure a series of Related Bonds, the obligations permitted to be used to defease such series of Related Bonds under the Related Bond Indenture, (b) with respect to any Obligations for which there are no Related Bonds, the obligations, if any, permitted to be used to defease such Obligations by the Supplemental Master Indenture under which such Obligations were issued, and (c) with respect to any other Obligations:

(i) United States Government Obligations; and

(ii) evidences of direct ownership of a proportionate or individual interest in future principal or interest payments on specified direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian pursuant to the terms of a custody agreement in form and substance satisfactory to the Master Trustee in which obligations are not available to satisfy creditors of the custodian.

"Existing Holder" means a Broker-Dealer that is listed as a holder of the Bonds on the records of the Auction Agent.

"Federal Funds Rate" means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System (including any such successor publication, "H.15(519)") for such day opposite the caption "Federal Funds (Effective)." If on any relevant day such rate is not yet published in H.15(519), the rate for such day will be the rate set forth in the daily statistical release designated as the Composite 3:30 p.m. Quotations for U.S. Government Securities, or any successor publication, published by the Federal Reserve Bank of New York (including any such successor publication, the "Composite 3:30 p.m. Quotations") for such day under the caption "Federal Funds Effective Rate." If on any relevant day the appropriate rate for such day is not yet published in either H.15(519) or the Composite 3:30 p.m. Quotations, the rate for such day will be the arithmetic mean of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m., New York City time, on such day by each of three leading brokers of Federal funds transactions in New York City, selected by the Remarketing Agent. The rate for any day which is not a Business Day shall be the rate for the immediately preceding Business Day.

"Fiscal Year" means any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of such calendar year or such other consecutive twelve-month periods selected by the Obligated Group Agent as the fiscal year for the Members.

"Fixed Interest Rate" means the rate to be borne by a Bond from and after the Fixed Rate Conversion Date applicable thereto, which shall be the lowest rate which, in the judgment of the Remarketing Agent, is necessary to enable such Bond to be remarketed at the principal amount thereof, plus accrued interest, if any, on the Fixed Rate Conversion Date.

"Fixed Rate Conversion Date" means the date on which a Bond begins to bear interest at a Fixed Interest Rate.

"Fixed Rate Period" means, with respect to a particular Bond, the period of time commencing on the Fixed Rate Conversion Date and ending on the Maturity Date or earlier redemption date thereof.

"Historical Debt Service Coverage Ratio" means, with respect to the period of time for which calculated, the ratio consisting of a numerator equal to the amount determined by dividing Income Available for Debt Service for that period by the Debt Service Requirements for such period and a denominator of one; provided, however, that in calculating the Debt Service Requirements for such period, the following shall be excluded: (a) principal or interest on Indebtedness paid from amounts on deposit in an irrevocable escrow established to pay such principal or interest; (b) principal or interest on Short Term Indebtedness; (c) principal or interest on Indebtedness of a Member or Designated Group Affiliate to any other Member or Designated Group Affiliate, any guarantee by any Member or Designated Group Affiliate of Indebtedness of any other Member or Designated Group Affiliate, or the joint or several liability of any Member on Indebtedness issued by any other Member; and (d) the principal amount of any Interim Indebtedness paid during such period to the extent such principal amount is paid from a source other than revenues of the Obligated Group or Designated Group Affiliates.

"Illinois Authority" means the Illinois Development Finance Authority, a political subdivision, body politic and corporate, organized under the laws of the State of Illinois, and any successor to its functions under the Illinois Indenture.

"Immediate Notice" means notice by telephone, telex or telecopier to such telephone number, telex number or telecopier number as the addressee shall have directed in writing, promptly followed by written notice by first class mail postage prepaid to such address as the addressee shall have directed in writing; provided, however, that if any person required to give an Immediate Notice shall not have been provided with the necessary information as to the telephone, telex or telecopier number of an addressee, Immediate Notice shall mean written notice by first class mail, postage prepaid.

"Income Available for Debt Service" means, with respect to the period of time for which calculated, the amount, if any, by which total revenue exceeds total expenses (other than depreciation, amortization and interest together with Obligation Payments to the extent that such Obligation Payments are treated as an expense during such period of time), of the Person or group of Persons involved determined in accordance with generally accepted accounting principles; provided, however, that no determination thereof shall take into account (a) any gain or loss resulting from the extinguishment of Indebtedness, (b) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business, (c) any gain or loss resulting from any discontinued operations, (d) any gain or loss resulting from pension terminations, settlements or curtailments, (e) any unusual charges for employee severance, or (f) other extraordinary items as defined by generally accepted accounting principles.

"Indentures" means, collectively, the Indiana Indenture and the Illinois Indenture.

"Indebtedness" means any indebtedness of a Person for the repayment of borrowed money (including Capital Leases, installment purchase contracts and guarantees of indebtedness) which is shown as a liability on the balance sheet of such Person or which is properly capitalized on the balance sheet of such Person in accordance with generally accepted accounting principles (including indebtedness evidenced by Obligations issued under the Master Indenture and indebtedness not evidenced by Obligations under the Master Indenture).

"Indiana Authority" means the Indiana Health Facility Financing Authority, a public body politic and corporate organized under the laws of the State of Indiana, and any successor to its functions under the Indiana Indenture.

"Indirect Participant" means any broker-dealer, bank or other financial institution for which DTC holds Bonds as a securities depository through a DTC Participant.

"Initial Liquidity Facility" means the initial Liquidity Facility issued by a Liquidity Facility Provider upon a Variable Rate Conversion Date.



"Interest Payment Date" means: (i) with respect to a Bond during a Commercial Paper Rate Period, each Repurchase Date; (ii) with respect to a Bond during a Variable Rate Period, (a) when used with respect to a Daily or Weekly Rate Period, the first Business Day of each calendar month occurring during such Variable Rate Period, (b) when used with respect to a Quarterly Rate Period, the first Business Day of the third calendar month following the month in which the Quarterly Rate Period commences and the first Business Day of each third calendar month thereafter, (c) when used with respect to a Semiannual or Adjustable Long Term Rate Period, the first Business Day of the sixth calendar month following the month in which the Semiannual or Adjustable Long Term Period commences and the first Business Day of each sixth month thereafter, and (d) in addition, when used with respect to any Optionally Tendered Bond purchased on an Optional Tender Date pursuant to the Liquidity Facility Agreement, such Optional Tender Date; (iii) with respect to a Bond during a Short Term Auction Rate Period, the Short Term Auction Rate Interest Payment Date as defined in Exhibit C of the Indenture; (iv) each Mandatory Tender Date; (v) after any Fixed Rate Conversion Date with respect to a Bond, each May 1 and November 1; (vi) for any Liquidity Facility Provider Bond, the earlier of the next succeeding Interest Payment Date for such Liquidity Facility Provider Bond if such Bond were not a Liquidity Facility Provider Bond and the date such Liquidity Facility Provider Bond is remarketed pursuant to the Remarketing Agreement; (vii) for a Bond bearing interest at a Commercial Paper Rate or Variable Rate, the Liquidity Purchase Date; (viii) with respect to any Bonds subject to mandatory bond sinking fund redemption in accordance with the Indenture, such mandatory redemption date; and (ix) the Maturity Date.

"Interest Period" means, for each Bond bearing interest at a Commercial Paper Rate, that period of time beginning on a Commercial Paper Rate Adjustment Date and to but not including the next Commercial Paper Rate Adjustment Date, determined by the Remarketing Agent on a Commercial Paper Rate Adjustment Date, which would, in the judgment of the Remarketing Agent, taking into account the Commercial Paper Rate for the particular Bond being determined on such Commercial Paper Rate Adjustment Date and the Commercial Paper Rates then borne by all other outstanding Bonds bearing interest at a Commercial Paper Rate, enable the Bonds bearing interest at a Commercial Paper Rate as a whole to bear the lowest rates achievable in the domestic financial market during the Interest Period selected (or, if the Remarketing Agent for any reason fails to determine such date, the date determined in accordance with the provisions set forth in the Indenture).

"Interim Indebtedness" means Indebtedness with respect to which the Obligated Group Agent certifies, at the time of the incurrence thereof, that the Obligated Group Agent expects the principal amount of such Indebtedness to be paid from a source other than the revenues of the Obligated Group or Designated Group Affiliates, including, but not limited to, the proceeds of other Indebtedness.

"Lien" means any mortgage, pledge or lease of, security interest in, or lien, charge, restriction or encumbrance on, any Property of the Person involved in favor of, or which secures any obligation to, any Person other than any Member or any Designated Group Affiliate, and any Capital Lease under which any Member or Designated Group Affiliate is lessee and the lessor is not a Member or a Designated Group Affiliate.

"Liquidity Facility" means a promise on the part of a Liquidity Facility Provider to pay the purchase price for Tendered Bonds in certain circumstances during a Variable Rate Period or a Commercial Paper Rate Period, which Liquidity Facility may take the form of a letter of credit, line of credit, bond purchase agreement, reimbursement agreement or other similar agreement. Liquidity Facility shall include the Initial Liquidity Facility and any Substitute Liquidity Facility as such agreement may be extended or renewed in accordance with its terms.

"Liquidity Facility Agreement" means the agreement between the Corporation and any Liquidity Facility Provider executed in connection with the issuance of any Liquidity Facility with respect to the Bonds, as amended, supplemented, extended, renewed or substituted from time to time which in the case of any Liquidity Facility Agreement has been approved by the Authority or a duly authorized officer of the Authority.

"Liquidity Facility Provider" means a commercial bank, savings and loan association, insurance company, other financial institution or other institution or entity which provides a Liquidity Facility.

"Liquidity Facility Provider Bond" means any Bond purchased with funds provided pursuant to a Liquidity Facility Agreement until remarketed with funds provided pursuant to the Remarketing Agreement.

"Liquidity Purchase Date" means the Business Day specified by the Bond Trustee in its notice delivered pursuant to the Indenture, which Business Day (i) is not more than ten (10) days after the date of receipt by the Bond Trustee of the notice from the Liquidity Facility Provider of an event which upon the expiration of a specified period of time would lead to a termination or suspension of the Liquidity Facility Provider's obligation to purchase the Bonds pursuant to the Liquidity Facility and (ii) occurs no later than the Business Day prior to the date the Liquidity Facility Provider's obligation to purchase Bonds required to be tendered for purchase under the Indenture terminates pursuant to the Liquidity Facility Agreement.

"Mandatory Tender Date" means any date on which a Holder of a Bond is required to tender any Bond for purchase in accordance with the provisions of the Indenture.

"Market Agent" means Merrill Lynch, Pierce, Fenner & Smith, Incorporated, or any successor Market Agent appointed by the Corporation pursuant to Exhibit C of the Indenture.

"Master Indenture" means the Master Trust Indenture dated as of November 1, 1997 between the Corporation and the Master Trustee, as it may from time to time be amended or supplemented in accordance with the terms thereof.

"Master Trustee" means Bank One Trust Company, N.A., or any successor trustee under the Master Indenture.

"Maturity Date" means the Interest Payment Date immediately following November 1, 2030, or, if such date occurs during a Short Term Auction Rate Period, the next Interest Payment Date that occurs after such date.

"Member" or "Member of the Obligated Group" means the Corporation and any other Person which has fulfilled the requirements for entry into the Obligated Group and which has not ceased such status.

"Municipal Index" means, on any date of determination, (A) the tax-exempt auction securities index maintained by the Market Agent for reset periods from 5 to 10 days, or if such index is not available or no longer maintained (B) an interest index published by the Market Agent representing the weighted average of the yield on tax-exempt commercial paper, or tax-exempt bonds bearing interest at a commercial paper rate or pursuant to a commercial paper mode, having a range of maturities or mandatory purchase dates between 7 and 10 days traded during the immediately preceding five Business Days.

"Net Rentals" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessees (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated by the Obligated Group Agent to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

"Obligated Group" means the Corporation and any other Person which has fulfilled the requirements for entry into the Obligated Group and which has not ceased such status.

"Obligated Group Agent" means the Corporation or such other Member as may be designated from time to time pursuant to written notice to the Master Trustee and each Related Issuer executed by the President or Chairman of the

Governing Body of the Corporation or, if the Corporation is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

"Obligation" shall mean any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which may be in any form set forth in a Supplemental Master Indenture, including, but not limited to bonds, notes, obligations, debentures, reimbursement agreements, loan agreements or leases. Reference to a series of Obligations or to Obligations of a series shall mean Obligations or series of Obligations issued pursuant to a single Supplemental Master Indenture.

"Obligation holder", "holder" or "owner of the Obligation" means the registered owner of any fully registered or book entry Obligation unless alternative provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued for establishing ownership of such Obligation, in which case such alternative provision shall control.

"Obligation Payments" shall mean payments (however designated) required to be made under any Obligation then Outstanding which Obligation does not constitute Indebtedness.

"Optional Tender Date" means the date specified by a Holder of a Bond in a Tender Notice for purchase of any Bond during a Variable Rate Period in accordance with the Indenture.

"Outstanding Bonds" means all Bonds which have been duly authenticated and delivered by the Bond Trustee or the Tender Agent under the Indenture, except:

- (a) Bonds cancelled after purchase in the open market or because of payment at or redemption prior to maturity;
- (b) Bonds for the payment or redemption of which cash or United States Government Obligations shall have been theretofore deposited with the Bond Trustee (whether upon or prior to the maturity or redemption date of any such Bonds) in accordance with the Indenture; provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Bond Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Bond Trustee shall have been filed with the Bond Trustee;
- (c) Bonds in lieu of which others have been authenticated under the Indenture;
- (d) after any Optional Tender Date, any Bond for which a Tender Notice was given in accordance with the Indenture hereof and which was not so tendered;
- (e) after any Mandatory Tender Date, any Bond which was required to be tendered on such Mandatory Tender Date in accordance with the Indenture and which was not so tendered; and
- (f) after the Fixed Rate Conversion Date applicable thereto, for the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Indenture, a Bond held or owned by the Corporation or any Affiliate thereof;

provided, however, that for the purposes of the Auction Procedures on any Auction Date, (i) Bonds bearing interest at a Short Term Auction Rate as to which the Authority, the Corporation or any Person known to the Auction Agent to be an Affiliate of the Authority or the Corporation shall be the Existing Holder thereof shall be disregarded and deemed not to be Outstanding and (ii) Bonds with respect to which provision for payment is made in accordance with the Indenture shall be deemed to be Outstanding for the purposes of applying the interest rate setting provisions hereof (unless such Bonds bear interest at a Fixed Interest Rate) and the transfer, registration and payment provisions hereof.

"Overdue Rate" means, on the first day of any Auction Rate Period, the interest rate per annum equal to the Applicable Percentage (determined with respect to Bonds with a prevailing rating Below BBB/"Baa") of the Municipal Index on such day; provided that in no event shall the Overdue Rate exceed the lesser of (i) 15% per annum and (ii) the maximum rate on such date permitted by Indiana law with respect to the Series 2000 A Bonds or by Illinois law with respect to the Series 2000 B Bonds, as the same may be modified by United States law of general application.

"Permitted Encumbrances" means the Master Indenture, any Related Loan Document, any Related Bond Indenture and, as of any particular time:

- a. Liens arising by reason of good faith deposits with a Member or Designated Group Affiliate in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member or Designated Group Affiliate to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member or Designated Group Affiliate to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pensions or profit sharing plans or other social security plans or programs, or to share in the privileges or benefits required for corporations participating in such arrangements;
- b. any Lien on any Property acquired by a Member or Designated Group Affiliate, which Lien secures (i) Indebtedness issued, incurred or assumed by any Member or Designated Group Affiliate in connection with and to effect such acquisition, or (ii) existing Indebtedness which will remain outstanding after such acquisition but will not be assumed by a Member or Designated Group Affiliate, if in each such case the aggregate principal amount of such Indebtedness does not exceed the fair market value of the Property subject to such Lien as determined in good faith by the Governing Body of the Member or Designated Group Affiliate;
- c. any Lien on any Property of any Member or Designated Group Affiliate granted in favor of or securing Indebtedness to any other Member or Designated Group Affiliate;
- d. any Lien on Property if such Lien equally or ratably secures all of the Obligations and, if the Obligated Group Agent shall so determine, any other Indebtedness of a Member or any Designated Group Affiliate;
- e. leases which relate to Property of a Member or a Designated Group Affiliate which is of a type that is customarily the subject of such leases, such as office space for physicians and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments; leases, licenses or similar rights to use Property to which the Corporation or a Designated Group Affiliate (or any predecessor in interest of such parties) is a party existing as of December 4, 1997 and any renewals and extensions thereof; and any leases, licenses or similar rights to use Property whereunder a Member or a Designated Group Affiliate is lessee, licensee or the equivalent thereof upon fair and reasonable terms no less favorable to the lessee or licensee than would obtain in a comparable arm's-length transaction;
- f. Liens for taxes and special assessments which are not then delinquent, or if then delinquent are being contested in accordance with the Master Indenture;
- g. utility, access and other easements and rights-of-way, restrictions, encumbrances and exceptions which do not materially interfere with or materially impair the operation of the Property affected

thereby (or, if such Property is not being then operated, the operation for which it was designed or last modified);

h. any mechanic's, laborer's, materialman's, supplier's or vendor's Lien or right in respect thereof if payment is not yet due under the contract in question or if such Lien is being contested in accordance with the Master Indenture;

i. such Liens, defects, irregularities of title and encroachments on adjoining property as normally exist with respect to property similar in character to the Property involved and which do not materially adversely affect the value of, or materially impair, the Property affected thereby for the purpose for which it was acquired or is held by the owner thereof, including without limitation statutory liens granted to banks or other financial institutions, which liens have not been specifically granted to secure Indebtedness and which do not apply to Property which has been deposited as part of a plan to secure Indebtedness;

j. zoning laws and similar restrictions which are not violated by the Property affected thereby;

k. statutory rights under Section 291, Title 42 of the United States Code, as a result of what are commonly known as Hill-Burton grants, and similar rights under other federal statutes or statutes of the state in which the Property is involved is located;

l. all right, title and interest of the state where the Property involved is located, municipalities and the public in and to tunnels, bridges and passageways over, under or upon a public way;

m. Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that (i) such Liens consist solely of restrictions on the use thereof or the income therefrom, or (ii) such Liens secure Indebtedness which is not assumed by any Member or Designated Group Affiliate and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

n. Liens of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which any Member or Designated Group Affiliate shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall be in existence;

o. Liens on moneys deposited by patients or others with a Member or Designated Group Affiliate as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents;

p. Liens on Property due to rights of third party payers for recoupment of excess reimbursement paid;

q. any Lien in the rebate fund, any depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document in favor of the Master Trustee, a Related Bond Trustee, a Related Issuer or the creditor of the Indebtedness issued or secured pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Loan Document;

r. any Lien on any Related Bond or any evidence of Indebtedness of any Member or Designated Group Affiliate acquired by or on behalf of any Member or Designated Group Affiliate in favor of the provider of liquidity or credit support for such Related Bond or Indebtedness;

s. such Liens, covenants, conditions and restrictions, if any, which do not secure Indebtedness and which are other than those of the type referred to above, and which (i) in the case of Property of the Corporation or any Designated Group Affiliate on December 4, 1997, do not and will not, so far as can reasonably be foreseen, materially adversely affect the value of the Property currently affected thereby or materially impair the same, and (ii) in the case of any other Property, do not materially impair or materially interfere with the operation or usefulness thereof for the purpose for which such Property was acquired or is held by a Member;

t. Liens on accounts receivable, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the amount received with respect to such accounts receivable by the Member or Designated Group Affiliate in connection with the creation of such Lien;

u. Liens on any Property of a Member or of a Designated Group Affiliate at December 4, 1997 or existing at the time any Person becomes a Member or a Designated Group Affiliate; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of the Member or any Designated Group Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

v. Liens on Property of a Person existing at the time such Person is merged into or consolidated with a Member or a Designated Group Affiliate, or at the time of a sale, lease or other disposition of the Properties of a Person as an entirety or substantially as an entirety to a Member or a Designated Group Affiliate which becomes part of a Property that secured Indebtedness that is assumed by a Member or a Designated Group Affiliate as a result of any such merger, consolidation or acquisition; provided, that no such Lien may be increased, extended, renewed, or modified after such date to apply to any Property of a Member or a Designated Group Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

w. Liens on any Property of a Member or a Designated Group Affiliate securing any Indebtedness if at the time of incurrence of such Indebtedness and after giving effect to all Liens permitted under this subsection, the aggregate value of Property subject to such Liens pursuant to this subsection does not exceed 25% of the value of the total assets of the Obligated Group and Designated Group Affiliates, as such value is shown on the most recent financial reports required to be delivered under the Master Indenture; and

x. Liens on any Property of a Member or a Designated Group Affiliate to secure any Indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the Property subject to such Lien; provided, that such Lien shall not apply to any Property theretofore owned by a Member or a Designated Group Affiliate, other than any theretofore unimproved real property on which the Property so constructed or improved is located.

"Person" means any natural person, firm, joint venture, limited liability company, association, partnership, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Potential Beneficial Owner" means, during a Short Term Auction Rate Period, a customer of a Broker-Dealer that is not a Beneficial Owner of Bonds but that wishes to purchase Bonds, or that is a Beneficial Owner of Bonds that wishes to purchase an additional principal amount of Bonds.

"Potential Holder" means a Broker-Dealer (or other Person as may be permitted by the Corporation) that is not an Existing Holder or that is an Existing Holder that wishes to become the Existing Holder of an additional principal amount of the Bonds.

"Primary Obligor" means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

"Property" means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated and whether owned as of the date of the Master Indenture or thereafter acquired.

"Property, Plant and Equipment" means all Property of each Member and Designated Group Affiliate which is classified as property, plant and equipment under generally accepted accounting principles.

"Proposed Fixed Rate Conversion Date" means the date indicated in the written notice of the Corporation given pursuant to the Indenture on which the Corporation intends to effect a conversion of the interest rate on a Bond to a Fixed Interest Rate.

"Qualified Index Criteria" means yield evaluations at par of notes or bonds of not less than five "high grade" component issuers, which notes or bonds are rated in the highest short-term rating category by Moody's and Fitch and are subject to tender upon seven (7) days' notice, and the interest on which is excludable from income for federal income tax purposes.

"Qualified Investments" means investments in any of the following:

- (a) United States Government Obligations;
- (b) Direct obligations of the ExportImport Bank, the Farm Credit System Financial Assistance Corporation, the Farmers Home Administration, the General Services Administration, the U.S. Maritime Administration, the Small Business Administration, the Government National Mortgage Association, the U.S. Department of Housing & Urban Development, or the Federal Housing Administration, and senior debt obligations rated "AAA" by Fitch and "Aaa" by Moody's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation; other direct obligations of any agency or instrumentality of the United States of America or obligations on which the timely payment of principal and interest is fully guaranteed by any such agency or instrumentality;
- (c) Certificates of deposit or time deposits of any bank (including without limitation the Bond Trustee) or trust company, the senior debt obligations of which bank or trust company at the time of purchase of such certificates of deposit or time deposits are rated in one of the two highest rating categories assigned by the Rating Agencies (without regard to any refinement or gradation of rating category by numerical modifier or otherwise), or which certificates of deposit or time deposits are fully secured by a security interest in Government Obligations or by obligations described in clauses (b) or (g) of this definition; provided, however, that if such certificates of deposit or time deposits are so secured (1) the Bond Trustee shall have a perfected first security interest in the obligations securing such certificates of deposit or time deposits, (2) the Bond Trustee shall hold or shall have the option to appoint an intermediary bank or trust company as its agent, the senior debt obligations of which bank or trust company at the time of purchase of such certificates of deposit or time deposits, are rated in one of the two highest rating categories assigned by the Rating Agencies (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) to hold the obligations securing such certificates of deposit or time deposits, and (3) the Bond Trustee or its appointed agent shall hold such obligations free and clear of the liens or claims of third parties, which conclusion, upon the request of the Bond Trustee, shall be confirmed by an Opinion of Counsel acceptable to the Bond Trustee;
- (d) Certificates of deposit or time deposits of any bank (including the Bond Trustee and the Liquidity Facility Provider) or trust company which certificates of deposit or time deposits are fully insured

by the Federal Deposit Insurance Corporation or any other similar United States governmental deposit insurance program;

(e) Securities of the type described in clauses (a) or (b) above purchased under agreements to resell such securities to any registered broker/dealer subject to the Securities Investors Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rating at the time of purchase of "Prime1" or "A3" or better by Moody's and of "Fitch-1" or "Fitch-2" or better by Fitch, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; (2) the securities are held free and clear of any liens or claims by a third party (other than as agent as hereinafter described) by the Bond Trustee or an independent third party acting solely as agent for the Bond Trustee, and such agent is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50,000,000 and the Bond Trustee shall have received written confirmation from such agent that it holds such securities, free and clear of any lien or claim, as agent for the Bond Trustee; (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 CFR 306.1 *et seq.* or 31 CFR 350.0 *et seq.* in such securities is created for the benefit the Bond Trustee; (4) the repurchase agreement has a term of 30 days or less, or the Bond Trustee will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; (5) the repurchase agreement matures at least ten days (or other commercially reasonable liquidation period) prior to the date on which the moneys invested therein are reasonably expected to be needed by the Bond Trustee; and (6) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 105%;

(f) Investment agreements with banks which at the time such agreement is executed meet the rating criteria set forth in (c) above or investment agreements with nonbank financial institutions of which (1) all of the unsecured, direct long-term debt which is rated by a Rating Agency at the time such agreement is executed is rated in one of its two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for obligations of that nature; or (2) if such nonbank financial institutions have no outstanding long-term debt which is rated, all of the short-term debt of which is rated, by each Rating Agency then maintaining a rating on such nonbank financial institution at the time such agreement is executed in the highest rating category (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned to short-term indebtedness by such Rating Agencies; or (3) have a guaranty from an entity whose claims paying ability is rated in the highest rating category;

(g) Shares of a fund registered under the Investment Company Act of 1940, as amended, whose shares are registered under the Securities Act of 1933, as amended, having assets of at least \$100,000,000, whose only assets are obligations described in (a) or (b) above, and which shares, at the time of purchase, are rated by each Rating Agency then maintaining a rating on such fund in one of the highest rating categories (without regard to any refinements or gradation of rating category by numerical modifier or otherwise) assigned by such Rating Agencies for obligations of that nature;

(h) Commercial paper maturing not more than 270 days from the date of issuance thereof which, at the time of purchase, is rated by each Rating Agency then maintaining a rating on such commercial paper in the highest rating category (without regard to any refinements or gradation of rating category by numerical modifier or otherwise) assigned by such Rating Agencies for obligations of that nature;

(i) Obligations of, or obligations fully guaranteed by, any state of the United States of America or any political subdivision thereof which obligations, at the time of purchase, are rated by each Rating Agency then maintaining a rating on such obligations in one of the two highest rating categories (without regard to any



refinement or gradation of rating category by numerical modifier or otherwise) assigned by such Rating Agencies to obligations of that nature;

(j) Debt securities of any corporation organized under the laws of any state, commonwealth or territory of the United States of America which securities, at the time of purchase, are rated by each Rating Agency then maintaining a rating on such debt securities in one of the two highest rating categories (without regard to any refinements or gradation of rating category by numerical modifier or otherwise) assigned by such Rating Agencies for obligations of that nature;

(k) Obligations which at the time of purchase are rated in the highest category of each Rating Agency then maintaining a rating on such obligations and which are not subject to redemption prior to maturity (except as provided in the escrow agreement described below) and are issued or incurred by any state, commonwealth or territory of the United States of America or any political subdivision, public instrumentality or public authority of any state, commonwealth or territory of the United States of America, which obligations are fully secured by and payable solely from an escrow fund consisting of cash and/or Government Obligations, which escrow fund is held by a corporate fiduciary pursuant to an escrow agreement (which may not be amended to provide for redemption on a date earlier than that originally contemplated by the parties on the date such escrow agreement was first executed) and the sufficiency of which for payment of such obligations has been verified by an accountant in a report, a copy of which has been delivered to the Bond Trustee by or for whose benefit such obligations are acquired and held; and

(l) Bankers acceptances of any bank or trust company organized under the laws of the United States of America or any state thereof, including the Bond Trustee, which acceptances at the time of purchase are rated in one of the two highest rating categories (without regard to any refinement of rating category by numerical modifier or otherwise) of each Rating Agency then maintaining a rating on such acceptances.

"Quarterly Rate Period" means any Variable Rate Period from and commencing on the first Business Day of a calendar month and to but not including the first Business Day of the third succeeding calendar month; provided, however, that a Quarterly Rate Period which immediately succeeds a Short Term Auction Rate Period shall commence on the Variable Rate Conversion Date with respect thereto and continue to but not including the first Business Day of the third succeeding calendar month.

"Rate Period Days" means, for any Auction Rate Period, the number of days that would constitute such Auction Rate Period but for the application of the provisions regarding the payment of interest contained in Section 201 of Exhibit C to each of the Indentures.

"Rating Agency," as used in the Master Indenture, shall mean each nationally recognized securities rating agency which at the time has a credit rating assigned to the Bonds at the request of the Corporation, which shall initially be Moody's or Fitch IBCA.

"Record Date" means with respect to a particular Bond, on or prior to a Fixed Rate Conversion Date applicable thereto, the Business Day immediately preceding an Interest Payment Date or Maturity Date therefor and, subsequent to a Fixed Rate Conversion Date applicable thereto, the fifteenth day (whether or not a Business Day) of the calendar month next preceding an Interest Payment Date therefor; provided, however, that if the Fixed Rate Conversion Date shall occur on or after April 15 but prior to May 1 or on or after October 15 but prior to November 1, the Record Date shall be the Fixed Rate Conversion Date.

"Related Bonds" means any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to any Member or Designated Group Affiliate

in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to such governmental issuer.

"Related Bond Indenture" means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"Related Bond Trustee" means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

"Related Issuer" means any issuer of a series of Related Bonds.

"Related Loan Document" means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are advanced to any Member or Designated Group Affiliate (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Member or Designated Group Affiliate).

"Remarketing Agent" means the placement or remarketing agent or agents at the time serving as such under the Remarketing Agreement.

"Remarketing Agreement" means any remarketing agreement entered by the Corporation and the Remarketing Agent relating to the rights, duties and obligations of the Remarketing Agent, as from time to time amended and supplemented, or if such remarketing agreement shall be terminated, then such other agreement which may from time to time be entered into with any Remarketing Agent with respect to the remarketing or placement of the Bonds.

"Repurchase Date" means, for any Bond during a Commercial Paper Rate Period, a Business Day determined by the Remarketing Agent on an applicable Commercial Paper Rate Adjustment Date as the date on which such Bond will be repurchased by the Tender Agent, on behalf of the Corporation (or, if the Remarketing Agent for any reason fails to determine such date, the date determined in accordance with the provisions of the Indenture).

"Securities Depository" means DTC and its successors and assigns or if (i) the then-Securities Depository resigns from its functions as depository of the Bonds or (ii) the Authority discontinues use of the then-Securities Depository, any other securities depository which is selected by the Corporation or the Bond Trustee at the direction of the Corporation, and, which during the Short Term Auction Rate Period, agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds, and is approved by the Auction Agent and the Market Agent.

"Securities Exchange Act" means the Securities Exchange Act of 1934.

"Semiannual Rate Period" means any Variable Rate Period from and commencing on the first Business Day of a calendar month and to but not including the first day preceding the first Business Day of the sixth succeeding calendar month; provided, however, that a Semiannual Rate Period which immediately succeeds a Short Term Auction Rate Period shall commence on the Variable Rate Conversion Date with respect thereto.

"Series 1997A Obligation" means the Corporation's \$169,465,000 Master Note Obligation, Series 1997A, issued under Supplemental Master Indenture No. 1, dated as of November 1, 1997, between the Corporation and the Master Trustee.

"Series 1997B Obligation" means the Corporation's \$30,535,000 Master Note Obligation, Series 1997B, issued under Supplemental Master Indenture No. 2, dated as of November 1, 1997, between the Corporation and the Master Trustee.

"Series 2000 A Bonds" means the Indiana Authority's \$105,000,000 Health System Revenue Bonds, Series 2000 A (Sisters of St. Francis Health System, Inc. Obligated Group), issued under the Indiana Indenture.

"Series 2000 A Note" means the Corporation's \$105,000,000 Master Note Obligation, Series 2000 A, issued under Supplemental Master Indenture No. 4, dated as of May 1, 2000, between the Corporation and the Master Trustee.

"Series 2000 B Bonds" means the Illinois Authority's \$40,000,000 Health System Revenue Bonds, Series 2000 B (Sisters of St. Francis Health System, Inc. Obligated Group), issued under the Illinois Indenture.

"Series 2000 B Note" means the Corporation's \$40,000,000 Master Note Obligation, Series 2000 B, issued under Supplemental Master Indenture No. 5, dated as of May 1, 2000 between the Corporation and the Master Trustee.

"Series 2000 Notes" means the Series 2000 A Notes and the Series 2000 B Notes.

"Short Term Auction Rate" means, during the Short Term Auction Rate Period, the fixed per annum interest rate borne by the Bonds for any Auction Rate Period.

"Short Term Auction Rate Conversion Date" means the date on which the Bonds begin to bear interest at a Short Term Auction Rate.

"Short Term Auction Rate Period" means the period of time commencing on a Short Term Auction Rate Conversion Date and ending on a Variable Rate Conversion Date, a Commercial Paper Rate Conversion Date or a Fixed Rate Conversion Date, including any Special Auction Rate Period.

"Short Term Auction Rate Interest Payment Date" during any Short Term Auction Rate Period shall have the meaning set forth in Exhibit C of the Indenture.

"Short Term Indebtedness" shall mean Indebtedness having an original maturity less than one year and not renewable at the option of the debtor for a period greater than one year from the date of original issuance thereof.

"Special Auction Rate Period" shall mean an Auction Rate Period designated pursuant to Exhibit C of the Indenture that consists of a specified number of Rate Period Days not fewer than one (1) day and not more than 364, and if such Special Auction Rate Period is greater than six (6) days, evenly divisible by seven, subject to adjustment as provided in Exhibit C of the Indenture.

"Standard Auction Rate Period" means any Auction Rate Period consisting of 7 Rate Period Days.

"Statutory Corporate Tax Rate" means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor Section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, which on the date hereof is .35.

"Statutory Individual Tax Rate" means, as of any date of determination, the highest tax rate (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every individual as set forth in Section 1 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, which on the date hereof is .396.

"Subsequent Auction Rate Period" means the period from and including the initial Interest Payment Date to, but excluding, the next Interest Payment Date and each period thereafter from and including an Interest Payment Date to but excluding the next Interest Payment Date; provided that if any Subsequent Auction Rate Period is a Special

Auction Rate Period consisting of more than 91 days, such term shall mean the period commencing on the first day of such Special Auction Rate Period and ending on the last day of such Special Auction Rate Period.

"Substitute Liquidity Facility" means any agreement between the Corporation and a Liquidity Facility Provider as it may from time to time be amended or supplemented, pursuant to which a Substitute Liquidity Facility shall be in effect, which may take the form of a letter of credit, line of credit or bond purchase agreement.

"Supplemental Master Indenture" means an indenture amending or supplementing the Master Indenture entered into pursuant to the Master Indenture.

"Supplemental Master Indenture No. 4" means the Supplemental Master Note Indenture No. 4, dated as of May 1, 2000, between the Corporation and the Master Trustee pursuant to which the Series 2000 A Note is issued.

"Supplemental Master Indenture No. 5" means the Supplemental Master Note Indenture No. 5, dated as of May 1, 2000, between the Corporation and the Master Trustee pursuant to which the Series 2000 B Note is issued.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code, and which is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Tender Agent" means the corporation or banking entity designated to act as the Tender Agent pursuant to the terms of the Indenture.

"Tender Date" means an Optional or a Mandatory Tender Date.

"Tender Notice" means the notice from a Holder of a Bond to the Tender Agent of an Optional Tender Date in accordance with the provisions set forth herein.

"Tendered Bonds" means Bonds tendered or deemed tendered for purchase pursuant to the Indenture.

"Trust Estate" means all collateral pledged to the Trustee pursuant to the Indenture.

"United States Government Obligations" means noncallable direct obligations of, or obligations the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America.

"Unrestricted Net Assets" means the part of net assets of a nonprofit organization that is neither permanently restricted nor temporarily restricted by donor-imposed restrictions or the unrestricted fund balance, capital and surplus, or other equivalent accounting classification representing the net worth of a Person.

"Variable Rate" means, with respect to the then effective Variable Rate Period applicable to a Bond (i.e., a Daily Rate Period, Weekly Rate Period, Quarterly Rate Period, Semiannual Rate Period or Adjustable Long Term Rate Period), the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Variable Rate Adjustment Date with respect thereto (or, if the Remarketing Agent for any reason fails to determine such rate, the rate determined in accordance with the provisions set forth in the Indentures).

"Variable Rate Adjustment Date" means the first day of each Variable Rate Period.

"Variable Rate Conversion Date" means a date on which a Bond begins to bear interest at a Variable Rate for (i) a particular Variable Rate Period which is of a different type than the preceding Variable Rate Period applicable thereto, (ii) an Adjustable Long Term Rate Period which is of a different length than the preceding Adjustable Long Term Rate Period applicable thereto except when shorter by reason of the , (iii) any Variable Rate Period which succeeds a Commercial Paper Rate Period applicable thereto or (iv) any Variable Rate Period which succeeds a Short Term Auction Rate Period applicable thereto.

"Variable Rate Period" means each Daily Rate Period, Weekly Rate Period, Quarterly Rate Period, Semiannual Rate Period and Adjustable Long Term Rate Period.

"Weekly Rate Period" means any Variable Rate Period from and commencing on Wednesday of any calendar week and including and ending on the Tuesday of the next calendar week; provided, however, that the Weekly Rate Period which begins on the date the Bonds are issued shall commence on the date of issuance of the Bonds, any Weekly Rate Period which does not follow another Weekly Rate Period shall commence on the Variable Rate Conversion Date with respect thereto and any Weekly Rate Period which is not followed by another Weekly Rate Period shall commence on the last or second to last Wednesday of a calendar month, at the discretion of the Remarketing Agent in order to most efficiently effect a conversion, and end on the day preceding the first Business Day of the next calendar month.

"Written Request" means a request in writing signed by the officers authorized or designated by the Member or Designated Group Affiliate, as the case may be.

## **SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE**

### **Authorization, Amount and Designation of Obligations**

Each Obligation issued under the Master Indenture must be authorized by the Obligated Group Agent and the Member issuing such Obligation by the adoption of the respective Governing Body of a Board Resolution. No further authorization or approval by any other Member or any Designated Group Affiliate is required for the issuance of such Obligation. The total principal amount of Obligations, the number of Obligations and the series of Obligations that may be created under the Master Indenture is not limited except as shall be set forth with respect to any other series of Obligations in the Supplemental Master Indenture providing for the issuance thereof. Each series of Obligations shall be issued pursuant to a Supplemental Master Indenture. Each series of Obligations shall be designated so as to differentiate the Obligations of such series from the Obligations of any other series.

### **Security for Obligations**

All Obligations issued and Outstanding under the Master Indenture are equally and ratably secured by the Master Indenture except to the extent specifically provided otherwise in the Master Indenture. Any one or more series of Obligations issued thereunder may, so long as any Liens created in connection therewith constitute Permitted Encumbrances, be secured by security (including without limitation letters or lines of credit, insurance or Liens on Property of the Obligated Group or Designated Group Affiliates, or security interests in a depreciation reserve, debt service or interest reserve or debt service or similar funds). Such security need not extend to any other Indebtedness (including any other Obligations or series of Obligations). Consequently, the Supplemental Master Indenture pursuant to which any one or more series of Obligations is issued may provide for such supplements or amendments to the provisions of the Master Indenture as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Obligations entitled thereto.

### **Substitution of Obligations**

All Obligations issued pursuant to the Master Indenture shall, upon the request of the Obligated Group Agent, be substituted with an original replacement obligation issued by or on behalf of any Member (the "Substitute Obligations") under and pursuant to and secured by a master trust indenture (the "Replacement Master Indenture") executed by all current Members of the Obligated Group and any other entities which are parties to and obligated with respect to indebtedness issued under such Replacement Master Indenture (collectively, the "New Group") and an independent corporate trustee (the "New Trustee") meeting the eligibility requirements of the Master Trustee as set forth in the Master Indenture, which Substitute Obligations have been duly authenticated by the New Trustee, upon receipt by the Master Trustee of certain items set forth in the Master Indenture including, without limitation:

a. a certificate of the Obligated Group Agent stating that the New Group, considered as a pro forma consolidated or combined group for purposes of the Master Indenture, with the elimination of material inter-company balances and transactions, would, after giving effect to such Substitute Obligations and assuming that the New Group constituted the Obligated Group under the Master Indenture and that the Substitute Obligations were issued under the Master Indenture, meet the Coverage Test; and

b. either

(i) the Replacement Master Indenture containing terms, covenants and provisions no less restrictive than those described under the following subheadings contained under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE": "Entrance Into the Obligated Group," "Cessation of Status of a Member of the Obligated Group," "General Covenants," "Coverage Test," "Merger, Consolidation, Sale or Conveyance," "Financial Statements," "Extension of Payment," "Liens on Property," "Defaults and Remedies," "Acceleration," "Remedies; Rights of Obligation Holders," "Direction of Proceedings by Obligation Holders," "Rights and Remedies of Obligation Holders," "Waivers of Events of Default," "Supplemental Master Indentures Not Requiring Consent of Obligation Holders" and "Supplemental Master Indentures Requiring Consent of Obligation Holders," except for (A) such differences as in the judgment of the Master Trustee are not to the prejudice of the holders of the Obligations, and (B) such other differences as the Master Trustee shall determine, grant to or confer upon the New Trustee, for the benefit of the holders of the notes and obligations, including the Substitute Obligations, issued under the Replacement Master Indenture, any additional rights, remedies, powers or authority or add to the covenants of the New Group or assign and pledge additional revenues, properties and collateral under the Replacement Master Indenture for the benefit of such holders; or

(ii) written confirmation from each Rating Agency then rating any outstanding Related Bonds that, upon consummation of the proposed transactions, the ratings on such Related Bonds (without regard to any credit enhancement of the Related Bonds) will not be lower as a result of the entry into the Replacement Master Indenture and the issuance of the Substitute Obligations; provided, however, that if, prior to the consummation of the proposed transactions, any such outstanding Related Bonds are not then rated by any Rating Agency, such a rating shall be obtained, which rating, as evidenced by the written confirmation of such Rating Agency, will not be lower as a result of the entry into the Replacement Master Indenture and the issuance of the Substitute Obligations.

### **Payment of Amounts Due Under any Obligation; Designated Group Affiliates**

Each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group as described below), jointly and severally covenants that it will promptly pay the principal of and premium, if any, interest and any other amount payable on every Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in said Obligations according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Obligations set forth in the

Master Indenture or in the Obligations, each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group), jointly and severally agrees to make payments upon each Obligation and be liable therefor at the times and in the amounts (including principal, interest and premiums, if any) equal to the amounts to be paid as interest, principal, or premium, if any, upon any Related Bonds from time to time outstanding. If any Member does not tender payment of any installment of principal, premium, interest or any other amount payable on any Obligation when due and payable, the Master Trustee shall provide prompt written notice of such nonpayment to such Member and the Obligated Group Agent.

#### **Control of Designated Group Affiliates**

Each Controlling Member shall cause each of its Designated Group Affiliates to pay, loan or otherwise transfer to the Obligated Group Agent or other Member (i) such amounts as are necessary to duly and punctually pay the principal of and premium, if any, interest and any other amount payable on all Outstanding Obligations or portions thereof the proceeds of which were loaned or otherwise made available to such Designated Group Affiliate or that were otherwise issued for the benefit of such Designated Group Affiliate and any other payments, required by the terms of such Obligations, the applicable Supplemental Master Indenture and the Master Indenture, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, and (ii) such amounts that are otherwise necessary to enable each Member to comply with the provisions of the Master Indenture with respect to the other Obligations issued by a Member of the Obligated Group.

The Obligated Group Agent shall at all times maintain an accurate and complete list of all Persons designated as Designated Group Affiliates. The Obligated Group Agent by a Board Resolution may designate any Person as a Designated Group Affiliate under the Master Indenture. The Obligated Group Agent by Board Resolution shall also designate for each Designated Group Affiliate a Member to serve as the Controlling Member for such Designated Group Affiliate. Each Controlling Member shall cause the Designated Group Affiliate to provide the Obligated Group Agent a Board Resolution accepting its status as Designated Group Affiliate and acknowledging the provisions of the Master Indenture affecting the Designated Group Affiliates. So long as a Person is designated as a Designated Group Affiliate, the Obligated Group Agent or such Controlling Member shall either (i) maintain, directly or indirectly, control of such Designated Group Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Designated Group Affiliate to the extent required to cause such Designated Group Affiliate to comply with the terms and conditions of the Master Indenture, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers, or the power to appoint members, trustees or directors or otherwise, or (ii) execute and have in effect such contracts or other agreements that the Obligated Group Agent and the Controlling Member, in the sole judgment of the respective Governing Body, deem sufficient for the Controlling Member to cause such Designated Group Affiliate to comply with the terms and conditions of the Master Indenture. Any Person will cease to be a Designated Group Affiliate and will not be subject to any of the provisions of the Master Indenture upon the declaration of the Governing Body of the Obligated Group Agent in a Board Resolution, and upon such declaration, such Person shall no longer be subject to any of the covenants applicable to a Designated Group Affiliate under the Master Indenture. The Obligated Group Agent shall deliver to the Master Trustee each Board Resolution designating a Designated Group Affiliate or declaring that a Person is no longer a Designated Group Affiliate.

Each Controlling Member covenants that it will cause each of its Designated Group Affiliates to comply with the terms and conditions of the Master Indenture which are applicable to such Designated Group Affiliate, and of the Related Loan Documents, if any, to which such Designated Group Affiliate is a party.

#### **Entrance Into the Obligated Group**

Any Person may become a Member of the Obligated Group if: (a) such Person shall execute and deliver to the Master Trustee a Supplemental Master Indenture acceptable to the Master Trustee which shall be executed by the Master Trustee and the Obligated Group Agent, containing (i) the agreement of such Person (A) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the Master Indenture and (B)

unconditionally and irrevocably (subject to the right of such Person to cease its status as a Member of the Obligated Group as described below) to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation, and (ii) representations and warranties by such Person substantially similar to those set forth in the Master Indenture except that any representation regarding organization and good standing shall refer to the actual state of organization of such Person (but with such deviations as are acceptable to the Master Trustee); (b) the Obligated Group Agent shall, by Board Resolution, have approved the admission of such Person to the Obligated Group; (c) the Master Trustee shall have received (i) a certificate of the Obligated Group Agent which demonstrates that (A) immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default of the performance or observance of any covenant or condition to be performed or observed by them, and (B) the Coverage Test would be met for the most recent Fiscal Year, calculating such Coverage Test as if such Person had become a Member on the first day of such Fiscal Year, (ii) an opinion of Independent Counsel to the effect that the instrument described in paragraph (a) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions including bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity, and (iii) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof and provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Bond Indentures, an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that under then existing law the consummation of such transaction, whether or not contemplated on the date of delivery of any such Related Bond, would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond otherwise entitled to such exemption.

#### **Cessation of Status as a Member of the Obligated Group**

Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture to cease to be a Member of the Obligated Group unless: (a) prior to cessation of such status, there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled; (b) prior to and immediately after such cessation, no event of default exists under the Master Indenture and no event shall have occurred which with the passage of time or the giving of notice, or both, would become an event of default; (c) prior to cessation of such status, the Obligated Group Agent delivers to the Master Trustee a written consent to the withdrawal by such Member; and (d) prior to cessation of such status, there is delivered to the Master Trustee a certificate of the Obligated Group Agent which demonstrates that the Coverage Test would be met for the most recent Fiscal Year, calculating such Coverage Test as if such Member had withdrawn from the Obligated Group on the first day of such Fiscal Year.

#### **General Covenants**

Each Member covenants to, and each Controlling Member covenants to cause each of its Designated Group Affiliates to: (a) except as otherwise expressly provided in the Master Indenture, (i) preserve its corporate or other separate legal existence, (ii) preserve all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs as then conducted, and (iii) be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification; provided, however, that nothing contained in the Master Indenture shall be construed to obligate such Member or Designated Group Affiliate to retain, preserve or keep in effect the rights, licenses or qualifications no longer used or, in the judgment of its Governing Body, useful in the conduct of its business; (b) promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable



which if not so paid, satisfied or discharged would constitute a default or an event of default under the Master Indenture; (c) at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness; and (d) in the case of the Corporation and any Person which is a Tax-Exempt Organization at the time it becomes a Member or Designated Group Affiliate, so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which could result in any such Related Bond being declared invalid or result in the interest on any Related Bond, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

The foregoing notwithstanding, any Member or Designated Group Affiliate may, with the prior written approval of the Obligated Group Agent, (i) cease to be a nonprofit corporation, or (ii) take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if prior thereto there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form and other aspects thereof, are acceptable to the Master Trustee) to the effect that such actions would not adversely affect the validity of any Related Bond, the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption or adversely affect the enforceability in accordance with its terms of the Master Indenture against any Member.

#### **Coverage Test**

Each Member covenants and agrees to, and each Controlling Member covenants to cause each of its Designated Group Affiliates to provide funds sufficient to pay promptly all payments due on its Indebtedness and other liabilities, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will, and each Controlling Member covenants that it will cause each of its Designated Group Affiliates to, from time to time as often as necessary and to the extent permitted by law, revise its methods of operation and its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of the Master Indenture.

The Obligated Group Agent shall cause the Historical Debt Service Coverage Ratio for the Obligated Group and the Designated Group Affiliates to be calculated no later than six months following the end of each Fiscal Year, commencing with the Fiscal Year ending December 31, 1997. If, for the previous Fiscal Year, such Coverage Test is not met, the Obligated Group Agent shall retain a Consultant to make recommendations to increase the Historical Debt Service Coverage Ratio for subsequent Fiscal Years to at least meet the Coverage Test or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member covenants and agrees, and each Controlling Member covenants to cause each of its Designated Group Affiliates to follow the recommendations of the Consultant, to the extent feasible. So long as the Obligated Group Agent shall retain a Consultant and the Member shall follow, and each Controlling Member shall cause each of its Designated Group Affiliates to follow, such Consultant's recommendations to the extent feasible, the failure to meet the Coverage Test will not constitute an Event of Default, unless and until such Historical Debt Service Coverage Ratio falls below 1.0 to 1.

#### **Merger, Consolidation, Sale or Conveyance**

(a) Each Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor entity to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) ("Successor Entity") is a corporation organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such

Successor Entity to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member; provided, a Member may sell or convey all or substantially all of its Property to a Successor Entity which is not a corporation;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture;

(iii) The Master Trustee shall have received a certificate of the Obligated Group Agent which demonstrates that the Coverage Test would be satisfied for the most recent Fiscal Year, calculating such Coverage Test as if such merger, consolidation, sale or conveyance had occurred on the first day of such Fiscal Year and the written approval of the Obligated Group Agent of such merger, consolidation, sale or conveyance;

(iv) The Master Trustee shall have received an opinion of Independent Counsel to the effect that the instrument described in paragraph (a)(i) has been duly authorized, executed and delivered and constitute a legal, valid and binding agreement of such Person enforceable in accordance with its terms, subject to customary exceptions including bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and applications of general principles of equity; and

(v) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on the original date of delivery of such Related Bonds, would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the Successor Entity, such Successor Entity shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such Member. The Member party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities or upon the Obligations and such Member as the predecessor or non-surviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any Successor Entity to such Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture and the predecessor corporation shall be released from its obligations under the Master Indenture and under any Obligations. All Obligations so issued by such Successor Entity under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued thereunder by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

(c) The Master Trustee may rely upon an opinion of Independent Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture.

(d) In addition to the changes contemplated in clause (a), a Member which is not a corporation may agree to make changes to its legal structure and create successor, assignee, resulting or transferee entities of such Member subject to the conditions in the Master Indenture. Each Member agrees that prior to the occurrence of such change, the Member will show compliance with the provisions of clause (a) (except as that may relate to maintenance of status as a corporation) in a manner consistent with the type of legal existence which the Member and the Successor Entity will

enjoy. The Master Trustee may rely on an opinion of Independent Counsel as conclusive evidence that any such change and any assumption complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of any instrument required to be executed and delivered as described above.

### **Financial Statements**

The Members covenant and agree that they will keep or cause to be kept proper books of record and accounts in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of the Obligated Group in accordance with generally accepted accounting principles. Each Controlling Member shall cause its Designated Group Affiliates to keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of such Designated Group Affiliate in accordance with generally accepted principles.

The Obligated Group Agent covenants and agrees, and each Controlling Member covenants to cause its Designated Group Affiliates, to furnish to the Master Trustee, any Related Issuer or Related Bond Trustee:

(a) As soon as practicable, but in no event more than five months after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 1997, a financial report for each Member for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by the Obligated Group Agent prepared on a combined or consolidated basis to include the results of operations of all Persons required to be consolidated or combined with such Member in accordance with generally accepted accounting principles and containing an audited combined or consolidated balance sheet as of the end of such Fiscal Year and an audited combined or consolidated statement of operations and changes in net assets for such Fiscal Year and accompanying footnotes for such Fiscal Year, and an audited combined or consolidated statement of cash flows for such Fiscal Year, together with an accompanying unaudited balance sheet, statement of operations and changes in net assets prepared on a combined basis to reflect only the operations of the Members and Designated Group Affiliates which have been required to be included in such report, showing in each case in comparative form the financial figures for the preceding Fiscal Year, and the statement that such accountants have obtained no knowledge of any default by such Member in the fulfillment of any of the terms, covenants, provisions, or conditions of the Master Indenture, or if such accountant shall have obtained knowledge of any such default or defaults, they shall disclose in such statements the default or defaults and the date such thereof (but such accountant shall not be liable directly or indirectly to any one for failure to obtain knowledge of any default).

(b) If the reports referred to in subsection (a) above do not include the results of operations of any Designated Group Affiliate, as soon as practicable, but in no event more than five months after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 1997, a financial report for such Designated Group Affiliate for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants approved by the Obligated Group Agent, prepared on a combined or consolidated basis to include the results of operations of all Persons required to be consolidated or combined with such Designated Group Affiliate in accordance with generally accepted accounting principles, and containing an audited combined balance sheet as of the end of such Fiscal Year and an audited combined statement of changes in operations and changes in net assets for such Fiscal Year and accompanying footnotes for such Fiscal Year, together with an audited combined statement of cash flows for such Fiscal Year, together with an accompanying unaudited balance sheet, statement of operations and changes in net assets prepared on a combined basis to reflect only the operations of the Designated Group Affiliates which have been required to be included in such report, showing in each case in comparative form the financial figures for the preceding Fiscal Year, and the statement that such accountants have obtained no knowledge of any default by such Designated Group Affiliate in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such accountant shall have obtained knowledge of any such default or defaults, they

shall disclose in such statements the default or defaults and the dates such thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

(c) As soon as practicable, but in no event more than six months after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 1997, a balance sheet, statement of operations and changes in net assets including all the Members and Designated Group Affiliates prepared based on the accompanying unaudited combined schedules delivered with the audited financial statements described in subsections (a) and (b) above (such balance sheet, statement of operations and changes in net assets being referred to in the Master Indenture as the "Obligated Group Financial Statements"), together with a certificate of the chief financial officer of the Obligated Group Agent stating that the Obligated Group Financial Statements were prepared in accordance with generally accepted accounting principles (except for required consolidations) and that the Obligated Group Financial Statements reflect the results of the operations of only the Members and the Designated Group Affiliates and all Members and Designated Group Affiliates are included.

(d) At the time of the delivery of the Obligated Group Financial Statements, a certificate of the chief financial officer of the Obligated Group Agent, stating that the Obligated Group Agent has made a review of the activities of each Member and Designated Group Affiliate during the preceding Fiscal Year for the purpose of determining whether or not the Members and Designated Group Affiliates have complied with all of the terms, provisions and conditions of the Master Indenture and that each Member and Designated Group Affiliate has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions of the Master Indenture, or if any Member or Designated Group Affiliate shall be in default such certificate shall specify all such defaults and the nature thereof.

Compliance with the covenants contained in the Master Indenture shall be demonstrated by reference to the Obligated Group Financial Statements.

If all financial statements required by this Section are filed with a Nationally Recognized Municipal Securities Information Repository (in accordance with Securities and Exchange Commission Rule 15c2-12 or any successor rules or regulations), the Obligated Group shall not be required to also provide such statements to the Master Trustee, the Related Issuers and the Related Bond Trustees unless such parties request in writing copies of such statements from the Obligated Group Agent.

Upon the written request of the Master Trustee, each Member shall, and each Controlling Member shall cause each of its Designated Group Affiliates to, at any and all times permit the Master Trustee by its representatives to inspect the properties, books of account, records, reports and other papers of the Member or Designated Group Affiliate, except donor records, patient records, personnel records, and any other confidential records, and to take copies and extracts therefrom, and will afford and procure a reasonable opportunity to make any such inspection. Each Member shall, and each Controlling Member shall cause each of its Designated Group Affiliates to, furnish to the Master Trustee any and all information as the Master Trustee may reasonably request, with respect to the performance by the Members or Designated Group Affiliates of their respective covenants in the Master Indenture.

### **Liens on Property**

The Members shall not, and a Controlling Member shall not permit any of its Designated Group Affiliates to, create or incur or permit to be created or incurred or to exist any Lien on any Property of any Member or any Designated Group Affiliate, except Permitted Encumbrances. Each Member shall, and each Controlling Member shall cause its Designated Group Affiliates to, report to the Obligated Group Agent, the creation of a Lien on its Property prior to the creation of the Lien to the extent within its power and control. The Obligated Group Agent shall monitor the compliance of the Members and Designated Group Affiliates with this provision.

### **Extension of Payment**

In case the time for the payment of principal of or the interest on any Obligation shall be extended, whether or not such extension be by or with the consent of the Master Trustee, such principal or such interest so extended shall not be entitled in case of default under the Master Indenture to the benefit or security of the Master Indenture except subject to the prior payment in full of the principal of all Obligations then Outstanding and of all interest thereon, the time for the payment of which shall not have been extended.

### **Defaults and Remedies**

Each of the following events is an "event of default" under the Master Indenture:

(a) failure of the Obligated Group to pay any installment of interest or principal, or any premium, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise; or

(b) failure of any Member to comply with, observe or perform any of the other covenants, conditions, agreements or provisions of the Master Indenture and to remedy such default within 60 days after written notice thereof to such Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; provided, that if such default cannot with due diligence and dispatch be wholly cured within 60 days but can be wholly cured, the failure of the Member to remedy such default within such 60-day period shall not constitute a default if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(c) any representation or warranty made by any Member in the Master Indenture or in any statement or certificate furnished to the Master Trustee or the purchaser of any Obligation in connection with the sale of any Obligation or furnished by any Member pursuant to the Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; or

(d) default in the payment of the principal of, premium, if any, or interest on any Indebtedness (other than Non-Recourse Indebtedness) of any Member as and when the same shall become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Obligation) of any Member, and which default in payment or event of default entitles the holder thereof to declare or, in the case of any Obligation, to request that the Master Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by an Obligation or issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an "event of default" unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds 5% of the Unrestricted Net Assets of the Obligated Group and Designated Group Affiliates as shown on or derived from the most recent financial reports required to be delivered pursuant to the Master Indenture; or

(e) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member or Designated Group Affiliate and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 60 days; provided,

however, that none of the foregoing shall constitute an event of default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 5% of the Unrestricted Net Assets of the Obligated Group and Designated Group Affiliates as shown on or derived from the most recent financial reports required to be delivered pursuant to the Master Indenture; or

(f) any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) a trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 30 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member (other than bankruptcy proceedings instituted by any Member against third parties), and if instituted against any Member are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution; or

(i) payment of any installment of interest or principal, or any premium, on any Related Bond shall not be made when the same shall become due and payable under the provisions of any Related Bond Indenture and any applicable grace period shall have expired.

#### **Acceleration**

If an event of default has occurred and is continuing, the Master Trustee may, and if requested by either the holders of not less than 25% in aggregate principal amount of Outstanding Obligations or the holder of any Accelerable Instrument under which Accelerable Instrument an event of default exists (which event of default permits the holder thereof to request that the Master Trustee declare such Indebtedness evidenced by an Obligation due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Obligated Group Agent, declare the entire principal amount of all Obligations then Outstanding under the Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable, subject, however, to the provisions of the Master Indenture which address waivers of events of default.

#### **Remedies; Rights of Obligation Holders**

Upon the occurrence of any event of default, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations Outstanding under the Master Indenture and any other sums due under the Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

If an event of default shall have occurred, and if it shall have been requested so to do by either the holders of 25% or more in aggregate principal amount of Obligations Outstanding or the holder of an Accelerable Instrument upon whose request pursuant to the Master Indenture the Master Trustee has accelerated the Obligations and if it shall have been indemnified as provided in the Master Indenture, the Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Master Indenture as the Master Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by counsel (who may be its own counsel) that the

action so requested may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or event of default under the Master Indenture, whether by the Master Trustee or by the holders of Obligations, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon.

#### **Direction of Proceedings by Obligation Holders**

The holders of a majority in aggregate principal amount of the Obligations then Outstanding which have become due and payable in accordance with their terms or have been declared due and payable as described above and have not been paid in full in the case of remedies exercised to enforce such payment, or the holders of a majority in aggregate principal amount of the Obligations then Outstanding in the case of any other remedy, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture and that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of the Obligations not parties to such direction. Pending such direction from the holders of a majority in aggregate principal amount of the Obligations Outstanding, such direction may be given in the same manner and with the same effect by the holder of an Accelerable Instrument upon whose request the Master Trustee has accelerated the Obligations.

The foregoing notwithstanding, the holders of a majority in aggregate principal amount of the Obligations then Outstanding which are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture, the Supplemental Master Indenture or Indentures pursuant to which such Obligations were issued or so secured or any separate security document in order to realize on such security; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture.

#### **Rights and Remedies of Obligation Holders**

No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless a default shall have become an event of default and (a) the holders of 25% or more in aggregate principal amount of (i) the Obligations which have become due and payable in accordance with their terms or have been declared due and payable as described above and have not been paid in full in the case of powers exercised to enforce such payment, or (ii) the Obligations then Outstanding in the case of any other exercise of power or (b) the holder of an Accelerable Instrument upon whose request the Master Trustee has accelerated the Obligations, shall have made written request to the Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted in the Master Indenture or to institute such action, suit or proceeding in its own name, and unless also, in each case, such holders have offered to the Master Trustee indemnity as provided in the Master Indenture, and unless the Master Trustee shall thereafter fail or refuse to exercise the powers granted in the Master Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of

indemnity are declared in every case at the option of the Master Trustee to be conditions precedent to the execution of the powers and trusts of the Master Indenture and to any action or cause of action for the enforcement of the Master Indenture, or for the appointment of a receiver or for any other remedy under the Master Indenture; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Master Indenture by its, his or their action or to enforce any right under the Master Indenture except in the manner therein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Master Indenture and for the equal benefit of the holders of all Obligations Outstanding. Nothing in the Master Indenture contained shall, however, affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on each of the Obligations issued under the Master Indenture to the respective holders thereof at the time and place, from the source and in the manner in said Obligations expressed.

#### **Waivers of Events of Default**

If, at any time after the principal of all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Master Indenture and before the acceleration of any Related Bond, any Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the Master Trustee, and any and all events of default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all Obligations then Outstanding and the holder of each Accelerable Instrument who requested the giving of notice of acceleration, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all events of default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent event of default, or shall impair any right consequent thereon.

#### **Acceptance of Trusts**

The Master Trustee, prior to the occurrence of an event of default and after the curing of all events of default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture and to perform such duties as an ordinarily prudent trustee under a corporate mortgage, and no implied covenants or obligations should be read into the Master Indenture against the Master Trustee. If an event of default under the Master Indenture shall have occurred and be continuing, the Master Trustee shall exercise such of the rights and powers vested in it by the Master Indenture and shall use the same degree of care as a prudent man would exercise or use in the circumstances in the conduct of his own affairs.

#### **Corporate Master Trustee Required; Eligibility**

There shall at all times be a Master Trustee under the Master Indenture which shall be a bank or trust company organized under the laws of the United States of America or any state thereof, authorized to exercise corporate trust powers, subject to supervision or examination by federal or state authorities, and (except for the Master Trustee initially appointed under the Master Indenture and its successors) having a reported combined capital and surplus of at least \$25,000,000. If at any time the Master Trustee shall cease to be eligible, it shall resign immediately in the manner described below. No resignation or removal of the Master Trustee and no appointment of a successor Master Trustee shall become effective until the successor Master Trustee has accepted its appointment.



### **Resignation and Removal of the Master Trustee**

The Master Trustee and any successor Master Trustee may at any time resign from the trusts created under the Master Indenture by giving thirty days' written notice to the Obligated Group Agent and by registered or certified mail to each registered owner of Obligations then Outstanding and to each holder of Obligations as shown by the list of Obligation holders required by the Master Indenture to be kept at the office of the Master Trustee. Such resignation shall take effect at the end of such thirty days or when a successor Master Trustee has been appointed and has assumed the trusts created under the Master Indenture, whichever is later, or upon the earlier appointment of a successor Master Trustee by the Obligation holders or by the Obligated Group. Such notice to the Obligated Group Agent may be served personally or sent by registered or certified mail.

The Master Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Master Trustee and to the Obligated Group Agent, and signed by the owners of a majority in aggregate principal amount of Obligations then outstanding; provided that, if any Related Issuer so elects, it may sign such an instrument as the owner of the Obligation or Obligations pledged to secure the Related Bonds issued by such Related Issuer. So long as the Obligated Group is not in default under the Master Indenture, the Obligated Group Agent may remove the Master Trustee by delivering an instrument in writing to the Master Trustee.

### **Appointment of Successor Master Trustee**

In case the Master Trustee shall resign or be removed, or be dissolved, or shall be in the process of dissolution or liquidation, or otherwise becomes incapable of acting, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the owners of 51% in aggregate principal amount of Obligations then Outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their attorneys in fact, duly authorized. The foregoing notwithstanding, so long as the Obligated Group is not in default, the Obligated Group Agent shall have the right to approve any such successor trustee. If a successor trustee shall not have been appointed within 30 days after notice of resignation by or removal of the Master Trustee, the Obligated Group Agent or any holder of an Obligation may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided. Every such successor Master Trustee appointed pursuant to the provisions of the Master Indenture shall be a trust company or bank in good standing under the law of the jurisdiction in which it was created and by which it exists, having corporate trust powers and subject to examination by federal or state authorities, and having a reported capital and surplus of not less than \$50,000,000.

### **Supplemental Master Indentures Not Requiring Consent of Obligation Holders**

Subject to the limitations described below, the Members and the Master Trustee may, without the consent of, or notice to, any of the Obligation holders, amend or supplement the Master Indenture, for any one or more of the following purposes:

(a) To cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation;

(b) To grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Member;

- (c) To assign and pledge under the Master Indenture any additional revenues, properties or collateral;
- (d) To evidence the succession of another corporation to the agreements of a Member or the Master Trustee, or the successor of any thereof;
- (e) To permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute in effect after the date of the Master Indenture or to permit the qualification of any Obligations for sale under the securities laws of any state of the United States;
- (f) To provide for the refunding or advance refunding of any Obligation;
- (g) To provide for the issuance of Obligations;
- (h) To reflect the addition to or withdrawal of a Member from the Obligated Group;
- (i) To provide for the issuance of Obligations with original issue discount, provided such issuance would not materially adversely affect the holders of Outstanding Obligations;
- (j) To permit an Obligation to be secured by security which is not extended to all Obligation holders;
- (k) To permit the issuance of Obligations which are not in the form of a promissory note;
- (l) To modify or eliminate any of the terms of the Master Indenture; provided, however, that such Supplemental Master Indenture shall expressly provide that any such modifications or eliminations shall become effective only when there is no Obligation Outstanding of any series created prior to the execution of such Supplemental Master Indenture, and the Master Trustee may, in its discretion, decline to enter into any such Supplemental Master Indenture which, in its opinion, may not afford adequate protection to the Master Trustee when the same becomes operative; and
- (m) To make any other change which, in the opinion of the Master Trustee, does not materially adversely affect the holders of any of the Obligations and, in the opinion of each Related Bond Trustee, does not materially adversely affect the holders of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code.

#### **Supplemental Master Indentures Requiring Consent of Obligation Holders**

In addition to Supplemental Master Indentures discussed above and subject to the terms and provisions described below, the holders of not less than 51% in aggregate principal amount of the Obligations which are outstanding at the time of the execution of such Supplemental Master Indenture or, in case less than all of the several series of Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Obligations of each series affected thereby which are outstanding at the time of the execution of such Supplemental Master Indenture, shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Members and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Members for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing described above or below shall permit, or

be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aforesaid aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Obligations at the time outstanding which would be affected by the action to be taken, except as otherwise permitted in the Master Indenture, or (c) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

For the purpose of obtaining the foregoing consents, unless a contrary provision is contained in a Related Bond Indenture or Supplemental Master Indenture, each Related Bond Trustee shall be deemed the holder of the Obligation or Obligations pledged to secure the Related Bonds with respect to which such Related Bond Trustee is acting as Trustee. In addition, the Related Bond Indenture or Supplemental Master Indenture may provide that the holders of the series of Related Bonds being issued in connection therewith shall be deemed to have consented to certain modifications or amendments to the Master Indenture described in an amendatory Supplemental Master Indenture (the "Proposed Amendments") by the purchase of such series of Related Bonds by the holders thereof. Such deemed consent shall be effective on the date of initial delivery of such series of Related Bonds and such consent will be binding on all subsequent holders of such series of Related Bonds.

#### **Satisfaction of the Master Indenture**

If the Members shall pay or provide for the payment of the entire indebtedness on all Obligations (including any Obligations owned by a Member) Outstanding in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Obligations Outstanding, as and when the same become due and payable;
- (b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations Outstanding (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Obligations, in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations Outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Obligations may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;
- (c) by delivering to the Master Trustee, for cancellation by it, all Obligations Outstanding; or
- (d) by depositing with the Master Trustee, in trust, before maturity, Escrow Obligations in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations Outstanding at or before their respective maturity dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then and in that case (but subject to the provisions of the Master Indenture) the Master Indenture and the estate and rights granted under the Master Indenture shall cease, determine, and become null and void, and thereupon the Master Trustee shall, upon Written Request of the Obligated Group Agent, and upon receipt by the Master Trustee of an Officer's Certificate from the Obligated Group Agent and an opinion of Independent Counsel acceptable to the Master Trustee, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Master Indenture have been complied with, forthwith

execute proper instruments acknowledging satisfaction of and discharging the Master Indenture and the lien thereof. The satisfaction and discharge of the Master Indenture shall be without prejudice to the rights of the Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection therewith. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

#### **Provision for Payment of a Particular Series of Obligations or Portion Thereof**

If the Obligated Group shall pay or provide for the payment of the entire indebtedness on all Obligations of a particular series or a portion of such a series (including any such Obligations owned by a Member or a Designated Group Affiliate) in one of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Obligations of such series or portion thereof outstanding, as and when the same shall become due and payable;

(b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations of such series or portion thereof outstanding (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Obligations may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;

(c) by delivering to the Master Trustee, for cancellation by it, all Obligations of such series or portion thereof outstanding; or

(d) by depositing with the Master Trustee, in trust, Escrow Obligations in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof at or before their respective maturity dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group with respect to such series of Obligations or portion thereof, and, if any such Obligations of such series or portion thereof are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then in that case (but subject to the provisions of the Master Indenture) such Obligations shall cease to be entitled to any lien, benefit or security under the Master Indenture. The liability of the Obligated Group in respect of such Obligations shall continue but the holders thereof shall thereafter be entitled to payment (to the exclusion of all other Obligation holders) only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

#### **Satisfaction of Related Bonds**

Notwithstanding the satisfaction of the provisions of the Master Indenture, any Obligation which secures a Related Bond (i) shall be deemed paid and shall cease to be entitled to the lien, benefit and security under the Master Indenture in the circumstances described in subsection (b)(ii) of the definition of "Outstanding Obligations" contained

in the Master Indenture; and (ii) shall not be deemed paid and shall continue to be entitled to the lien, benefit and security under the Master Indenture unless and until such Related Bond shall cease to be entitled to any lien, benefit or security under the Related Bond Indenture pursuant to the provisions thereof.

### **SUMMARY OF CERTAIN PROVISIONS OF SUPPLEMENTAL MASTER INDENTURES**

The Series 2000 Notes are issued pursuant to the Master Trust Indenture as supplemented by the Supplemental Master Indentures. The Supplemental Master Indentures provide that the Series 2000 Notes will be subject to prepayment prior to maturity to the extent that the Bonds are subject to redemption prior to maturity.

### **SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS AND THE SERIES 2000 NOTES**

Under the Indiana Loan Agreement, the Indiana Authority will loan to the Corporation the proceeds of the Series 2000 A Bonds for the purpose of (i) currently refunding the Authority's (a) outstanding \$66,900,000 original principal amount Hospital Revenue Notes, Series 1999 (Sisters of St. Francis Health Services, Inc. Project) issued September 29, 1999, and (b) outstanding \$20,000,000 original principal amount Hospital Revenue Notes, Series 1999B (Sisters of St. Francis Health Services, Inc. Project) issued December 16, 1999; (ii) financing the acquisition, construction and equipping of certain additions and improvements to the facilities to be operated by the Corporation and its Designated Group Affiliates; and (iii) paying certain costs of issuance in connection therewith. See "PLAN OF FINANCE" and "ESTIMATED USES AND SOURCES OF FUNDS." As evidence of its obligation to repay such loan, together with interest and premium, if any, thereon, the Corporation will issue and deliver to the Indiana Authority the Series 2000 A Note. Under the Illinois Loan Agreement, the Illinois Authority will loan to the Corporation the proceeds of the Series 2000 B Bonds for the purpose of (i) currently refunding the Authority's outstanding \$31,000,000 original principal amount Hospital Revenue Notes, Series 1999C (Sisters of St. Francis Health Services, Inc. Project) issued December 16, 1999; (ii) financing the acquisition, construction and equipping of certain additions and improvements to the facilities to be operated by the Corporation and its Designated Group Affiliates; and (iii) paying certain costs of issuance in connection therewith. See "PLAN OF FINANCE" and "ESTIMATED USES AND SOURCES OF FUNDS." As evidence of its obligation to repay such loan, together with interest and premium, if any, thereon, the Corporation will issue and deliver to the Illinois Authority the Series 2000 B Note.

Each of the Series 2000 Notes will be issued in an amount equal to the aggregate principal amount of each issue of the Bonds, will be payable in installments at the same times as the maturities and mandatory redemption terms of each issue of the Bonds (subject to certain credits), will be subject to optional redemption at the same times and with the same redemption premiums, if any, as are applicable to each issue of Bonds, and will bear interest on unpaid installments of principal equal to the interest rates per annum on each issue of the Bonds (subject to certain credits).

The Series 2000 Notes will be registered in the name of the Trustee, and the Trustee for each issue of the Bonds will use the payments made on each of the Series 2000 Notes to pay debt service on the related series of Bonds. Except as provided in each of the Loan Agreements and the related Indentures, the loans to be made under each of the Loan Agreements is to be evidenced solely by the related Series 2000 Notes and the obligation to make loan repayments does not exist separate or independent of the Series 2000 Notes.

Each of the Loan Agreements contains covenants of the Corporation relating to its tax-exempt status, to indemnification of each of the Authorities and the Trustee, and to the application of the proceeds of the sale of the Bonds.

Each of the Indentures provides that, without the consent of the holders of any related Bonds, the Trustee, at any time and from time to time, may consent to one or more amendments to the related Loan Agreements, to: (a) evidence the succession of another corporation to the Corporation or any Member and the assumption by the successor corporation of the covenants, agreements and obligations of the Corporation or any Member pursuant to the Master Indenture; (b) add to the covenants of the Corporation or any Member such further covenants, restrictions or conditions as its Governing Body and the Trustee shall consider to be for the protection of the holders of the Bonds issued under the related Indenture; and (c) cure any ambiguity or to correct or supplement any provision contained in each of the Indentures or in any supplemental indenture which may be defective or inconsistent.

With the consent of the holders of not less than a majority in principal amount of the related Bonds then outstanding which are affected by such amendment, by act of said holders delivered to the Trustee, the Trustee may enter into an amendment or amendments to the related Loan Agreement, for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the related Loan Agreement; provided, however, that no such amendment shall, without the consent of the holder of each outstanding related Bond affected thereby: (a) reduce the aggregate amounts payable under the related Series 2000 Note, or allow any installment of principal or interest thereof to be paid subsequent to the time needed for the payment of principal, premium, if any, and interest on the related Bonds; or (b) modify any of the provisions of the related Loan Agreement to eliminate the requirement that the Trustee or the bondholders consent to an amendment thereto.

## **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES**

### **Pledge and Assignment**

Under each of the Indentures, each of the Authorities pledges and assigns to the Trustee, for the benefit of the holders from time to time of each issue of the Bonds: (i) all of its right, title, interest and privilege in, to and under the related Loan Agreement (subject to the right of each of the Authorities for indemnification and administration expenses under Sections 10 and 11 thereof), each of the related Supplemental Master Indentures, and each of the related Series 2000 Notes, and (ii) all property of any kind subjected to the lien of each of the Indentures or pledged or assigned to the Trustee pursuant to the provisions of each of the Indentures, including all cash and securities held by the Trustee in the trust funds created or established under each of the Indentures (except for the respective Rebate Funds) and all earnings thereon.

### **Funds and Accounts**

There are established in each of the Indentures the following funds and accounts: an Interest Fund, a Bond Sinking Fund, an Expense Fund, a Redemption Fund, a Project Fund (including a Project Account and an Escrow Account) and a Rebate Fund.

From the payments to be made on each of the Series 2000 Notes, the Trustee is required to deposit said amounts as follows: (a) into the related Interest Fund, the amount required to pay interest on the related issue of Bonds on the next succeeding Interest Payment Date; and (b) into the Bond Sinking Fund, an amount required to pay principal on the related issue of Bonds on the next succeeding Interest Payment Date or any date on which principal is to become due by maturity or any mandatory sinking fund redemption. Moneys in each Interest Fund and each Bond Sinking Fund will be used to pay interest on and principal of each issue of Bonds as it becomes due (whether at maturity or by mandatory redemption).

Moneys in the Expense Fund established under each of the Indentures shall be used for the payment of expenses for any recording, trustee's and depository's fees and expenses, accounting and legal fees, financing costs, printing costs, rating service fees, bond insurance premiums, and other fees and expenses incurred to or to be incurred by or on behalf of each of the respective Authorities or the Corporation in connection with the issuance and sale of each

issue of the Bonds. Any moneys remaining in each Expense Fund on July 1, 2000, shall be transferred to each Project Fund established under the Indentures.

Amounts received by the Trustee under each of the Indentures representing (i) condemnation proceeds or insurance proceeds for purposes of redeeming Bonds or (ii) amounts deposited by the Corporation or either of the Authorities representing moneys from any other source for redeeming Bonds other than for purposes of satisfying a mandatory sinking fund redemption requirement shall be deposited into the Redemption Fund under each of the Indentures. Moneys on deposit in the Redemption Fund shall be used first to make up any deficiencies existing in the Interest Fund and the Bond Sinking Fund (in the order listed) and second for the purchase or redemption of Bonds.

Moneys held in the Project Account of the Project Fund under each of the Indentures shall be disbursed by the Trustee upon receipt by the Trustee of a Written Request of the Corporation stating (i) a description of the portion of the related Project for which reimbursement or payment is sought including the cost of such portion of the related Project, (ii) that such costs have been incurred by the Corporation and have been paid or are to be paid by the Corporation, (iii) that such costs are valid costs under the related Act and that no part thereof was included in any prior financing under the related Act or any prior written request of the Corporation under the related Indenture, (iv) that all necessary permits and approvals presently required for that portion of the related Project for which such withdrawal is being made have been issued and are in full force and effect, and (v) that such withdrawal is being made to reimburse the Corporation or pay a third party for the payment of the cost of the related Project.

Moneys held in the Escrow Account of the Project Fund under each of the Indentures shall be disbursed by the Trustee upon receipt of a Written Request of the Corporation with respect to a withdrawal from the respective Escrow Account stating the amount required to be transferred to the Escrow Trustee for the purpose of paying off the respective series of Notes.

At such time as the Trustee is furnished with a Written Request of the Corporation, the Trustee shall transfer any moneys remaining in the Escrow Account under each Indenture to the related Project Account. Upon completion of each of the Projects, the Corporation shall present a Written Request directing the Trustee to transfer any moneys remaining in each Project Account on such date to the respective Bond Sinking Fund under each of the Indentures.

Certain amounts may be held from time to time in the Rebate Fund under each of the Indentures to comply with the arbitrage and rebate requirements under the Code.

Interest income derived from the investment of each Fund and Account under each of the Indentures is to be deposited (i) until the completion of the related Project, into the Project Account of the Project Fund under each of the Indentures, (ii) thereafter into the Bond Sinking Fund under each of the Indentures to the extent of the amounts required to be deposited on the next required payment date on each issue of the Bonds so long as the next principal payment is required to be made within thirteen (13) months from the date of deposit therein, (iii) then to the Interest Fund under each of the Indentures to the extent necessary to make the next two (2) interest payments therefrom, and (iv) then to the Redemption Fund under each of the Indentures.

The Trustee shall invest all Trust Moneys under each of the Indentures on hand from time to time as specified in a request of the Corporation in Qualified Investments.

#### **Events of Default and Remedies**

An Event of Default under each of the Indentures includes: (1) default in the payment of the principal or purchase price of, premium, if any, or interest on any of the respective issue of Bonds when the same becomes due and payable; (2) default in the performance or breach of any covenant or warranty of the Authority contained in the Indenture (subject to notice and a 30-day grace period) other than a default described in (1) above or (3) described hereafter; (3) a default under the related Loan Agreement; or (4) an event of default under the Master Indenture.

Upon the occurrence and continuance of an Event of Default under each of the Indentures, and upon the acceleration of the respective Series 2000 Notes under the Master Indenture, the Trustee, in its discretion, may and shall, upon the happening of an Event of Default specified in clause (1) of the preceding paragraph or upon the happening and continuance of any other Event of Default and the written request of the Holders of not less than 25% in aggregate principal amount of the related Bonds then Outstanding and receipt of indemnity to its satisfaction shall in the case of an Event of Default specified in clause (1) of the preceding paragraph by notice in writing to the respective Authorities, the Corporation, the Master Trustee and notice to the Bondholders of the appropriate issue of Bonds, declare the entire principal amount of the appropriate issue of Bonds then Outstanding and the interest accrued thereon, immediately due and payable and the entire principal and interest shall thereupon become immediately due and payable; provided that if such acceleration of the respective Series 2000 Notes is for any reason annulled, the acceleration of the related Bonds shall automatically be annulled.

In exercising such rights and the rights given to the Trustee under each of the Indentures with respect to an Event of Default, the Trustee shall take such action as, in the judgment of the Trustee would best serve the interests of the Holders of the Bonds, taking into account the Master Indenture and the related Supplemental Master Indenture, together with the security and remedies afforded to holders of the obligations thereunder. Upon the occurrence of any Event of Default, the Trustee may pursue any available remedy, including a suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds outstanding hereunder.

Anything in the each of the Indentures to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of each issue of the Bonds then outstanding under each of the Indentures shall have the right, by an instrument in writing executed and delivered to the related Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under each of the Indentures.

No Holder of any of the related Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the related Indenture, or the pursuit of any remedy under the related Indenture or on the Bonds, unless: (i) such Holder previously shall have given to the Trustee written notice of an Event of Default as provided in the related Indenture; (ii) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the respective issue of Bonds then outstanding shall have made written request of the Trustee to execute such trust or trusts or pursue such remedy or remedies, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise its powers or to institute such action, suit or proceeding in its or their name; (iii) there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and (iv) the Trustee shall not have complied with such request within a reasonable time.

No remedy conferred upon or reserved to the Trustee or to the Holders of the related Bonds is intended to be exclusive of any other remedy or remedies, and each and every remedy shall be cumulative, and shall be in addition to every other remedy given under the Indenture as of the date thereof or thereafter existing at law or in equity or by statute.

All moneys received under the provisions described above, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, shall be deposited in the related Bond Sinking Fund and all moneys so deposited in the related Bond Sinking Fund during the continuance of an Event of Default (other than moneys for the payment of related Bonds which have matured or otherwise become payable prior to such Event of Default) shall (after payment of the fees and expenses of the Trustee) be applied as follows:

(a) Unless the principal of all the related Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First -- To the payment of amounts, if any, payable pursuant to the Tax Certificates.



Second -- To the payment to the Persons entitled thereto of all installments of interest then due on the related Bonds, in the order of the maturity of the installments of such interest and, if the amounts available shall not be sufficient to pay in full any particular installment then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and

Third -- To the payment to the Persons entitled thereto of the unpaid principal of and premium, if any, on any of the related Bonds which shall have become due (other than related Bonds which have matured or otherwise become payable prior to such Event of Default and moneys for the payment of which are held in the Bond Sinking Fund or otherwise held by the Trustee), with interest on such principal at the rate or rates borne by such related Bonds from the respective dates upon which the same became due and, if the amount available shall not be sufficient to pay in full the principal amount, premium, if any, and interest due on any particular date, then to the payment ratably, according to the principal amount due on such date, to the Persons entitled thereto, without any discrimination or privilege; and

Fourth -- To the payment to the Persons entitled thereto of unpaid principal and interest due and owing on any of the related Bonds, the payment of principal and interest of which has been extended pursuant to the provisions of the Indenture.

(b) If the principal of each issue of the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First -- To the payment of amounts, if any, payable pursuant to each of the Tax Certificates;

Second -- to the payment of the principal and interest then due and unpaid upon the affected issue of Bonds, without preference or priority of principal or interest over the other or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege; and

Third -- To the payment of the principal and interest when due and unpaid upon the affected issue of Bonds with respect to which the payment of principal and interest has been extended as described in the Indenture.

The Trustee will be the holder of the each series of the related Series 2000 Notes under the Master Indenture and, as such, it has only those rights and remedies specified in the Master Indenture for a holder of an Obligation upon a default by the corporation thereunder, except that to the extent action may be taken by a specified percentage of Obligation holders under the Master Indenture, the holders of a corresponding percentage of Related Bonds will be deemed to be Obligation holders for such purpose. See the information herein under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Remedies; Rights of Obligation Holders."

#### **Amendments and Supplements**

Without the consent of the Holders of each issue of the Bonds, each of the Authorities and the Trustee may enter into one or more supplemental indentures related to each of the Indentures for the following purposes, among others:

- (A) to cure any ambiguity or formal defect or omission in each of the Indentures;
- (B) to grant to or confer upon the Trustee for the benefit of the holders of each issue of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders and the Bond Trustee, or either of them;

- (C) to assign and pledge under each of the Indentures additional revenues, properties or collateral;
- (D) to evidence the appointment of a separate trustee or the succession of a new trustee under each of the Indentures;
- (E) to modify, amend or supplement each of the Indentures or any indenture supplemental thereto in such manner as to permit the qualification of each of the Indentures under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States of America;
- (F) after the Fixed Rate Conversion Date, to modify, amend or supplement each of the Indentures or any indenture supplemental thereto in such manner as to permit the issuance of coupon Bonds bearing interest at a Fixed Interest Rate and to permit the exchange of Bonds bearing interest at a Fixed Interest Rate from fully registered form to coupon form and vice versa;
- (G) to provide for the refunding or advance refunding of each issue of the Bonds, including the right to establish and administer an escrow fund and to take related action in connection therewith;
- (H) with respect to Bonds of each issue bearing interest at a Commercial Paper Rate or a Variable Rate, to provide for the utilization of a Liquidity Facility or a Substitute Liquidity Facility Agreement which may be a direct pay or stand-by letter of credit, a line of credit or a bank bond purchase agreement;
- (I) to modify, amend or supplement each of the Indenture or any indenture supplemental thereto in such manner as to permit each issue of the Bonds to be eligible for participation in a book-entry system;
- (J) to provide for bond insurance or other credit enhancement for each issue of the Bonds;
- (L) to modify, amend or supplement each of the Indentures or any indenture supplemental thereto in such manner as to permit continued compliance with the Tax Certificates;
- (M) to modify the form of Bond attached to each of the Indentures to more fully reflect the terms of the interest rate mode or modes in which the Bonds are therein guarantied; or
- (N) to modify, amend or supplement the provisions of each of the Indentures in any other way which the Trustee has determined does not materially adversely affect the rights or interests of any Bondholder.

The Authority and the Bond Trustee may not enter into an indenture or indentures supplemental to this Indenture pursuant to paragraph (F) or (H) above unless they shall have received an Opinion of Bond Counsel to the effect that the issuance of coupon Bonds will not adversely affect the validity of such Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled.

With the consent of the Holders of not less than a majority in principal amount of each issue of the Bonds outstanding which are affected by such supplemental indenture by act of said Holders delivered to the Authority, the Corporation and the Trustee, the Authority and the Trustee may enter into a supplemental indenture or indentures for

the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the Holders of the related Bonds under the Indenture, provided, however, that no such supplemental indenture shall permit, or be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the redemption of, any related Bonds, without the consent of the holders of such related Bonds, (b) a reduction in the amount or extension of the time of any payment required to be made to or from the Interest Fund or the Bond Sinking Fund provided under each of the Indentures, without the consent of the holders of all the related Bonds at the time outstanding, (c) the creation of any lien prior to or on a parity with the lien of each of the Indentures, without the consent of the holders of all of each issue of the Bonds at the time outstanding, (d) a reduction in the aggregate principal amount of each issue of Bonds the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all of the related Bonds at the time outstanding, (e) the modification of the rights, duties or immunities of the Trustee or the Tender Agent, without the written consent of the Trustee or the Tender Agent, as the case may be, (f) a reduction in the Tender Price payable upon any Optional or Mandatory Tender Date or the Repurchase Price payable on any Repurchase Date or an extension of the time of payment thereof, without the consent of the holders of the related Bonds affected thereby, (g) a modification of the tender rights of any holder of each issue of the Bonds or the mandatory tender provisions applicable to each issue of the Bonds, which would adversely affect the rights of any holder of related Bonds, without the consent of the holders of all related Bonds affected thereby, or (h) a modification of the provisions of each of the Indentures relating to conversions to Short Term Auction Rate Periods or of Exhibit C of each of the Indentures and the definitions contained therein, including without limitation the definitions of Default Rate, Maximum Short Term Auction Rate, Short Term Auction Index and Short Term Auction Rate which would adversely affect the rights of any holder of related Bonds, without the consent of the holders of all related Bonds affected thereby.

Under the Master Indenture, for certain purposes the holder of each Bond is considered a holder of a corresponding amount of the Series 2000 Notes and may consent to amendments to the Master Indenture or to Supplemental Master Indentures as provided herein under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE— Supplemental Master Indentures Requiring Consent of Obligation Holders."

### **Defeasance**

If the Authority or the Corporation delivers to the Trustee, in trust, cash and/or Escrow Investments, the maturing principal of which and interest on which will be sufficient to pay when due (or upon the redemption thereof) the principal of, premium, if any, and interest on each issue of the Bonds; the related Authority or the Corporation has paid, caused to be paid or made arrangements satisfactory to the Trustee for the payment of all other sums payable under the related Indenture and the related Authority or the Corporation has delivered to the Trustee a certificate of the Corporation and an Opinion of Bond Counsel each stating that all conditions provided for in the related Indenture relating to the satisfaction and discharge of the related Indenture have been complied with, then the related Bonds will be deemed to have been paid within the meaning of the related Indenture and will no longer be secured by the related Indenture, the related Series 2000 Note or the Master Indenture.

**APPENDIX E**  
**FORMS OF OPINIONS OF BOND COUNSEL**

**FORM OF BOND COUNSEL OPINION**  
**FOR INDIANA BONDS**

May 5, 2000

Bank One Trust Company, N.A., as trustee  
Indianapolis, Indiana

Indiana Health Facility  
Financing Authority  
Indianapolis, Indiana

Merrill Lynch & Co.  
Chicago, Illinois

**Re:** \$105,000,000 Indiana Health Facility Financing Authority  
Health System Revenue Bonds, Series 2000 A  
(Sisters of St. Francis Health Services, Inc. Obligated Group)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale by the Indiana Health Facility Financing Authority (the "Authority"), of its \$105,000,000 aggregate principal amount Health System Revenue Bonds, Series 2000 A (Sisters of St. Francis Health Services, Inc. Obligated Group) (the "Bonds"). The Bonds are being issued pursuant to IC 5-1-16, as amended (the "Act"), and under an Indenture of Trust and Pledge dated as of May 1, 2000 (the "Indenture"), between the Authority and Bank One Trust Company, N.A., as Trustee (the "Bond Trustee"), as authorized by a certain Resolution adopted by the Authority on April 18, 2000 (the "Resolution"). The Indenture contains an assignment of certain of the Authority's rights under a Loan Agreement dated as of May 1, 2000 (the "Loan Agreement"), between the Authority and Sisters of St. Francis Health Services, Inc., an Indiana nonprofit corporation (the "Corporation"), and a Master Note Obligation, Series 2000 A, of the Corporation (the "Series 2000 A Note"), issued pursuant to a Master Trust Indenture, dated as of November 1, 1997 (the "Master Indenture"), between the Corporation and Bank One Trust Company, N.A., as Trustee (the "Master Trustee"), as previously supplemented and as further supplemented by a Supplemental Master Indenture No. 4, dated as of May 1, 2000 (the "Supplemental Master Indenture").

May 5, 2000

As described in the Indenture, the Authority is loaning to the Corporation the proceeds of the Bonds for the purpose of (1) currently refunding the Authority's (a) outstanding \$66,900,000 original principal amount Hospital Revenue Notes, Series 1999 (Sisters of St. Francis Health Services, Inc. Project) issued September 29, 1999, and (b) outstanding \$20,000,000 original principal amount Hospital Revenue Notes, Series 1999B (Sisters of St. Francis Health Services, Inc. Project) issued December 16, 1999; (2) financing the Project described in Exhibit A to the Indenture and (3) paying the costs of the issuance of the Bonds.

The Corporation is issuing its Series 2000 A Note to the Authority to evidence its obligation to repay the loan by making payments sufficient to pay the principal of, premium, if any, and interest on the Bonds when due. Under the Indenture, the Bonds are secured by a pledge of all of the Authority's rights in, to, and under the Series 2000 A Note and under the Loan Agreement (except the right of the Authority to receive certain payments) and all funds and accounts established by or pursuant to the Indenture to the extent provided therein (the "Trust Estate"). The Bonds are payable solely from the Trust Estate. Pursuant to a Bond Purchase Agreement dated May 2, 2000 (the "Purchase Agreement"), entered into by the Authority, the Corporation, and Merrill Lynch & Co., as purchaser of the Bonds (the "Purchaser"), the Authority is selling the Bonds to the Purchaser.

As bond counsel we have examined the following:

- (a) Certified transcripts of proceedings of the Authority relating to the (i) authorization, issuance, and sale of the Bonds; (ii) authorization and execution of the Indenture under which the Bonds are issued; and (iii) authorization and execution of the Loan Agreement.
- (b) Certified copies of the Articles of Incorporation and the By-Laws of the Corporation.
- (c) Certificates of state officials and the Secretary of the Corporation relative to the valid existence of the Corporation.
- (d) A certified copy of the corporate proceedings of the Board of Directors of the Corporation authorizing and approving, among other things, the execution and delivery of the Master Indenture, the Supplemental Master Indenture, the Loan Agreement, and the Series 2000 A Note.
- (e) Executed counterparts of the Master Indenture, the Supplemental Master Indenture, the Indenture, the Loan Agreement, and the executed Series 2000 A Note.
- (f) Executed Bond No. 00AR-1.
- (g) The opinion, of even date herewith, of Bose McKinney & Evans LLP, counsel for the Authority.

May 5, 2000

(h) Certificates relating to the execution, authentication and delivery of the Bonds and showing no litigation pending or threatened with respect thereto.

(i) Such other information, records, certificates and documents as we believe necessary or advisable in order to render this opinion.

It is understood that the rights of the holders of the Bonds and the enforceability of the Bonds, the Master Indenture, the Supplemental Master Indenture, the Indenture, the Loan Agreement, the Series 2000A Note and the Indenture may be subject to bankruptcy, insolvency, reorganization, rearrangement, receivership, moratorium and other laws and matters of public policy affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion and general principles of equity in appropriate cases.

As to questions of fact material to our opinion, we have relied, without undertaking to verify the same by independent investigation, upon representations, covenants, and certifications of public officials and representations, covenants, and certifications by or on behalf of the Corporation contained in the documents and certified proceedings described above, and in other documents furnished to us (including certifications as to the use of Bond proceeds which are material to Paragraph 5 below). We express no opinion on the enforceability of any provision that may directly or indirectly provide for compounding of interest and the opinions expressed herein are subject to the qualification that the rights to indemnity and the scope of any indemnity undertaking as interpreted by a court in a given situation may be limited by federal or state securities laws, public policy, or the common law of the State of Indiana.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is a body corporate and politic existing under and by virtue of the laws of the State of Indiana, including the Act, with power, among other things, to issue, sell, and deliver the Bonds, to loan the proceeds thereof to the Corporation in accordance with the Loan Agreement and to enter into the Loan Agreement, the Indenture, and the Bond Purchase Agreement.
2. The Loan Agreement has been duly authorized, executed, and delivered by the Authority and the Corporation and constitutes a valid and binding obligation of the parties thereto enforceable in accordance with its terms, and the Series 2000 A Note has been duly authorized, executed, and delivered by the Corporation and constitutes a valid and binding obligation of the Corporation enforceable in accordance with its terms.
3. The Indenture has been duly authorized, executed, and delivered by the Authority, constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms and creates a valid lien on the Trust Estate.

Bank One Trust Company, N.A.  
Indiana Health Facility  
Financing Authority  
Merrill Lynch & Co.

May 5, 2000

4. The Bonds have been duly authorized and issued and constitute valid and binding limited obligations of the Authority enforceable in accordance with their terms.

5. The interest on the Bonds (a) is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) is not an item of tax preference for purposes of the federal alternative minimum tax that may be imposed under the Code on individuals and corporations, except that with respect to corporations (as defined for federal income tax purposes), interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in this Paragraph 5 are subject to the condition that the Authority and the Corporation comply with all the requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Authority and the Corporation have covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

By terms of the Indenture, the Bonds bear interest from their date of issuance at an Auction Rate in an Auction Rate Period. All or any portion of the Bonds may be converted subsequently from an Auction Rate Period to a Variable Rate Period, a Commercial Paper Rate Period, or a Fixed Rate Period under the circumstances and subject to the terms and conditions set forth in the Indenture, subject to receipt of an approving opinion of Bond counsel. No opinion is expressed herein as to the effect upon any Bond or the excludability of the interest thereon for federal income tax purposes resulting from any such change or action.

6. The interest on the Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax.

Very truly yours,

**FORM OF BOND COUNSEL OPINION  
FOR ILLINOIS BONDS**

May 5, 2000

Bank One Trust Company, N.A., as trustee  
Indianapolis, Indiana

Illinois Development Finance Authority  
Chicago, Illinois

Merrill Lynch & Co.  
Chicago, Illinois

**Re:** \$40,000,000 Illinois Development Finance Authority  
Health System Revenue Bonds, Series 2000 B  
(Sisters of St. Francis Health Services, Inc. Obligated Group)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale by the Illinois Development Finance Authority (the "Authority"), of its \$40,000,000 aggregate principal amount Health System Revenue Bonds, Series 2000 B (Sisters of St. Francis Health Services, Inc. Obligated Group) (the "Bonds"). The Bonds are being issued pursuant to the Illinois Development Finance Authority Act, 20 ILCS 3505/1 *et seq.*, as amended (the "Act"), and under an Indenture of Trust and Pledge dated as of May 1, 2000 (the "Indenture"), between the Authority and Bank One Trust Company, N.A., as Trustee (the "Trustee"), as authorized by a certain Resolution adopted by the Authority on April 20, 2000 (the "Resolution"). The Indenture contains an assignment of the Authority's rights under a Loan Agreement dated as of May 1, 2000 (the "Loan Agreement"), between the Authority and Sisters of St. Francis Health Services, Inc., an Indiana nonprofit corporation (the "Corporation"), and a Master Note Obligation, Series 2000 B, of the Corporation (the "Series 2000 B Note"), issued pursuant to a Master Trust Indenture, dated as of November 1, 1997 (the "Master Indenture"), between the Corporation and Bank One Trust Company, N.A., as Trustee (the "Master Trustee"), as previously supplemented and as further supplemented by a Supplemental Master Indenture No. 5, dated as of May 1, 2000 (the "Supplemental Master Indenture").

As described in the Indenture, the Authority is loaning to the Corporation the proceeds of the Bonds for the purpose of (1) currently refunding the Authority's outstanding



Bank One Trust Company, N.A., as trustee  
Illinois Development Finance Authority  
Merrill Lynch & Co.

May 5, 2000

\$31,000,000 original principal amount Hospital Revenue Notes, Series 1999C (Sisters of St. Francis Health Services, Inc. Project) issued December 16, 1999; (2) financing the Project described in Exhibit A to the Indenture; and (3) paying the costs of the issuance of the Bonds.

The Corporation is issuing its Series 2000 B Note to the Authority to evidence its obligation to repay the loan by making payments sufficient to pay the principal of and interest on the Bonds when due. Under the Indenture, the Bonds are secured by a pledge of all of the Authority's rights in, to and under the Series 2000 B Note and under the Loan Agreement (except the right of the Authority to receive certain payments) and all funds and accounts established by or pursuant to the Indenture to the extent provided therein (the "Trust Estate"). The Bonds are payable solely from the Trust Estate. Pursuant to a Bond Purchase Agreement dated May 2, 2000 (the "Purchase Agreement"), entered into by the Authority, the Corporation and Merrill Lynch & Co., as purchaser of the Bonds (the "Purchaser"), the Authority is selling the Bonds to the Purchaser.

As bond counsel we have examined the following:

- (a) Certified transcripts of proceedings of the Authority relating to the (i) authorization, issuance and sale of the Bonds; (ii) authorization and execution of the Indenture under which the Bonds are issued; and (iii) authorization and execution of the Loan Agreement.
- (b) Certified copies of the Articles of Incorporation and the By-Laws of the Corporation.
- (c) Certificates of state officials and the Secretary of the Corporation relative to the valid existence of the Corporation.
- (d) A certified copy of the corporate proceedings of the Board of Directors of the Corporation authorizing and approving, among other things, the execution and delivery of the Master Indenture, the Supplemental Master Indenture, Indenture, the Loan Agreement and the Series 2000 B Note.
- (e) Executed counterparts of the Master Indenture, the Supplemental Master Indenture, the Indenture, the Loan Agreement and the executed Series 2000 B Note.
- (f) Executed Bond No. 00BR-1.
- (g) The opinion, of even date herewith, of Burke, Burns & Pinelli, Ltd., counsel for the Authority.
- (h) Certificates relating to the execution, authentication and delivery of the Bonds and showing, to the Authority's knowledge, no litigation pending or threatened with respect thereto.

(i) Such other information, records, certificates and documents as we believe necessary or advisable in order to render this opinion.

It is understood that the rights of the holders of the Bonds and the enforceability of the Bonds, the Master Indenture, the Supplemental Master Indenture, the Indenture, the Loan Agreement, the Purchase Agreement and the Series 2000 B Note may be subject to bankruptcy, insolvency, reorganization, rearrangement, receivership, moratorium and other laws and matters of public policy affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion and general principles of equity in appropriate cases.

As to questions of fact material to our opinion, we have relied, without undertaking to verify the same by independent investigation, upon representations, covenants and certifications of public officials and representations, covenants and certifications by or on behalf of the Corporation contained in the documents and certified proceedings described above, and in other documents furnished to us (including certifications as to the use of Bond proceeds which are material to Paragraph 5 below). We express no opinion on the enforceability of any provision that may directly or indirectly provide for compounding of interest, and the opinions expressed herein are subject to the qualification that the rights to indemnity and the scope of any indemnity undertaking as interpreted by a court in a given situation may be limited by federal or state securities laws, public policy or the common law of the State of Indiana.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is a political subdivision, body politic and corporate, duly organized and existing under and by virtue of the laws of the State of Illinois, including the Act, with power, among other things, to issue, sell and deliver the Bonds, to loan the proceeds thereof to the Corporation in accordance with the Loan Agreement, and to enter into the Loan Agreement, the Indenture and the Purchase Agreement.
2. The Loan Agreement has been duly authorized, executed and delivered by the Authority and the Corporation and constitutes a valid and binding obligation of the parties thereto enforceable in accordance with its terms, and the Series 2000 B Note has been duly authorized, executed and delivered by the Corporation and constitutes a valid and binding obligation of the Corporation enforceable in accordance with its terms.
3. The Indenture has been duly authorized, executed and delivered by the Authority, constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms, and creates a valid lien on the Trust Estate.
4. The Bonds have been duly authorized and issued and constitute valid and binding limited obligations of the Authority enforceable in accordance with their terms.

May 5, 2000

5. The interest on the Bonds (a) is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) is not an item of tax preference for purposes of the federal alternative minimum tax that may be imposed under the Code on individuals and corporations, except that with respect to corporations (as defined for federal income tax purposes), interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in this Paragraph 5 are subject to the condition that the Authority and the Corporation comply with all the requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be (or continue to be) excludable from gross income for federal income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Authority and the Corporation have covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

By terms of the Indenture, the Bonds bear interest from their date of issuance at an Auction Rate in an Auction Rate Period. All or any portion of the Bonds may be converted subsequently from an Auction Rate Period to a Variable Rate Period, a Commercial Paper Rate Period, or a Fixed Rate Period under the circumstances and subject to the terms and conditions set forth in the Indenture, subject to receipt of an approving opinion of Bond counsel. No opinion is expressed herein as to the effect upon any Bond or the excludability of the interest thereon for federal income tax purposes resulting from any such change or action.

6. Interest on the Bonds is not exempt from present Illinois income taxes.

Very truly yours,

## APPENDIX F

### SETTLEMENT PROCEDURES

(a) Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an order on behalf of an Existing Holder or Potential Holder of:

- (i) the Auction Rate fixed for the next Auction Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell order on behalf of an Existing Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Holder;
- (v) if the aggregate principal amount of Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Bonds and the principal amount of Bonds to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;
- (vi) if the principal amount of Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Agent Member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of Bonds and the principal amount of Bonds to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and
- (vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

- (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell order was accepted or rejected, in whole or in part;
- (ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through DTC the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid against receipt of such Bonds;
- (iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-

Dealer (or its Agent Member) through DTC the principal amount of Bonds to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Auction Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b) (ii) above, and any Bonds received by it in connection with such Auction pursuant to paragraph (b) (iii) above among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date shall instruct its Agent Member as provided in (b) (ii) or (iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to the Agent Member of the Existing Holder delivering Bonds to such Broker-Dealer following such Auction pursuant to (b) (iii) above the amount necessary to purchase such Bonds against receipt of such Bonds, and (B) deliver such Bonds through DTC to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not an Agent Member of DTC shall instruct its Agent Member to (A) pay through DTC to a Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (a)(vi) above the amount necessary to purchase the Bonds to be purchased pursuant to (b)(ii) above against receipt of such Bonds, and (B) deliver such Bonds through DTC to the Agent Member of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

(i) each Agent Member for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b) (ii) or (iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Agent Member shall instruct DTC to execute the transactions described in (d) (iii) above for such Auction, and DTC shall execute such transactions.

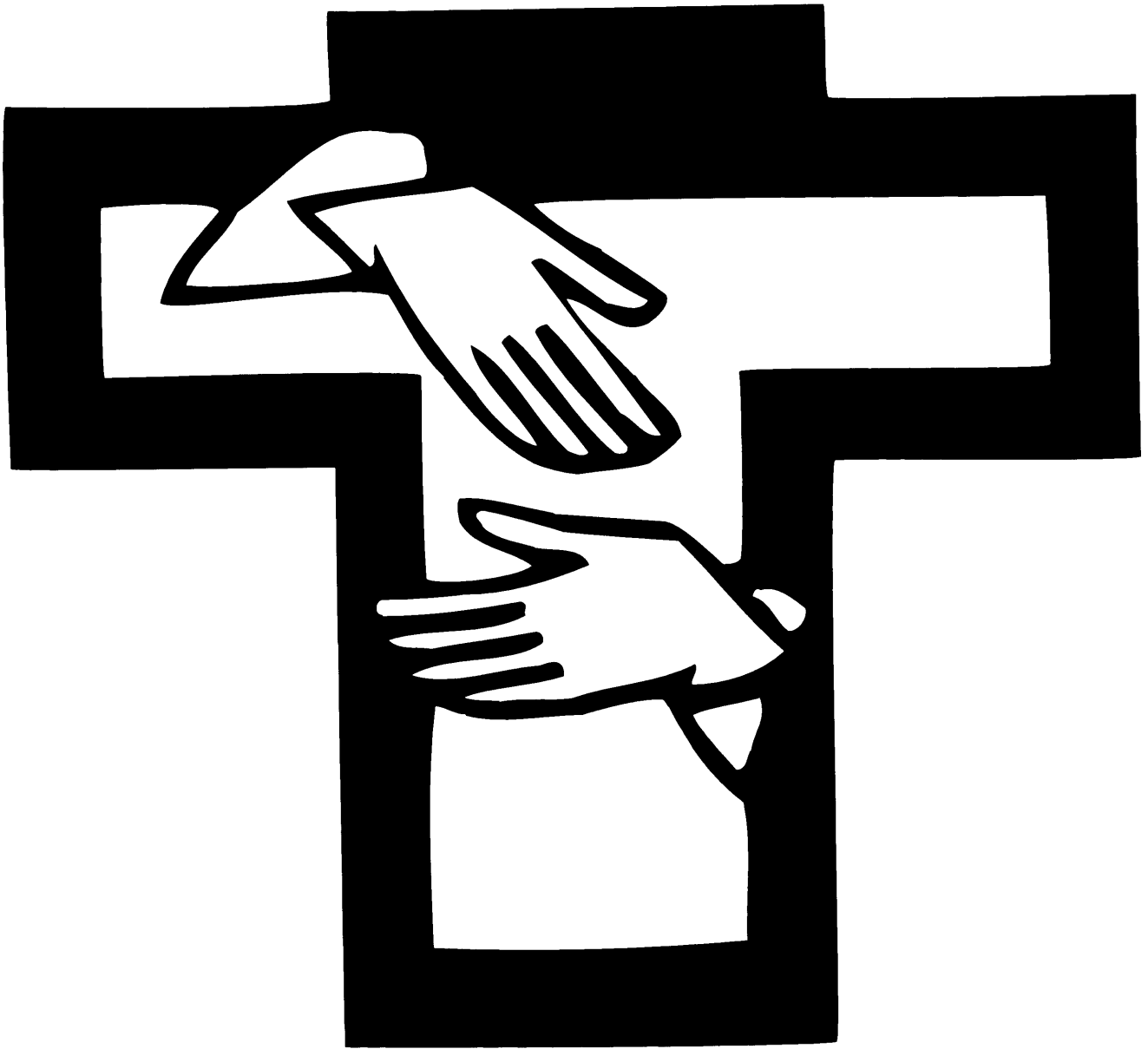
(f) If any Existing Holder selling Bonds in an Auction fails to deliver such Bonds (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Bonds that is less than the principal amount of Bonds that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of Bonds to be delivered shall be determined solely by such

**Broker-Dealer.** Delivery of such lesser principal amount of Bonds shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or non-delivery of Bonds which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements.

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MSRB

## FORM G-36(OS) - FOR OFFICIAL STATEMENT

## SECTION I - MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. ☐ A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)(a) DATE RECEIVED FROM ISSUER: 5-4-00 (b) DATE SENT TO MSRB: 5-4-002. ☐ AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: \_\_\_\_\_ (b) DATE SENT TO MSRB: \_\_\_\_\_

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: ☐C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original Form G-36(OS)): ☐

## SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here: ☐A. NAME OF ISSUER: INDIANA HEALTH FAC'S FIN AUTHSTATE: INDIANA  
DATED: 5-5-00DESCRIPTION OF ISSUE: Health Sys Jan 2000 AB. NAME OF ISSUER: ILLINOIS DEV FIN AUTHSTATE: ILLINOIS  
DATED: 5-5-00DESCRIPTION OF ISSUE: Health Sys Jan 2000 B

C. NAME OF ISSUER: \_\_\_\_\_

STATE: \_\_\_\_\_  
DATED: \_\_\_\_\_

DESCRIPTION OF ISSUE: \_\_\_\_\_

## SECTION III - TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 11-1-2030B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 5-4-00C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 5-5-00D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: ☐  
A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

## SECTION IV - UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER: MERRILL LYNCHSEC REG. NUMBER: 007691B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING: \$ 145 MYN

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): \$ \_\_\_\_\_

D. CHECK ALL THAT APPLY:

1. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
2. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
3. ☐ This offering is exempt from SEC Rule 15c2-12 under section (d)(1)(i) of that rule. Section (d)(1)(i) of SEC Rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

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## SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

### A. CUSIP-9 NUMBERS OF ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
11-1-30	45479PAA9				
11-1-30	45189A AA3				

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: ☐

(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: \_\_\_\_\_

State the reason why such securities have not been assigned a "CUSIP-9": \_\_\_\_\_

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: ☐

State the reason why such securities are ineligible for CUSIP number assignment: \_\_\_\_\_

## SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED MATERIALS WILL BE PUBLICLY DISSEMINATED.

RECEIVED

MAY - 5 2000

ON BEHALF OF THE  
SECTION